THE UNIVERSITY OF OKLAHOMA

GRADUATE COLLEGE

CONTENT GUIDE FOR A COURSE IN MANAGEMENT OF SMALL INDUSTRIAL BUSINESSES

A DISSERTATION

SUBMITTED TO THE GRADUATE FACULTY

in partial fulfillment of the requirements for the

degree of

DOCTOR OF EDUCATION

BY

CLARENCE

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Norman, Oklahoma

1967

CONTENT GUIDE FOR A COURSE IN MANAGEMENT

OF SMALL INDUSTRIAL BUSINESSES

APPROVED BY

DISSERTATION COMMITTEE

ACKNOWLEDGEMENT

The writer is sincerely grateful to the chairman of his doctoral committee and director of this study, Dr. Gerald A. Porter, whose patience, encouragement, assistance, and counsel were so essential in the development of this dissertation. Furthermore, he acknowledges with appreciation the help given by Dr. Marion C. Phillips, Dr. Raymond R. White, and Dr. Lloyd P. Williams who served as members of his doctoral committee.

The writer appreciates very much the assistance given by the businessmen of Greater Oklahoma City who shared so generously the case information about their businesses. Without their help, this study could not have been possible. It is impossible to mention each person whose encouragement or assistance enabled the writer to complete this endeavor. However, he is particularly indebted to his wife, Jacquelyn, who typed the reading copies of the manuscript; his children, Brent, Kimberly, and Laura Lee; and his parents, Mr. and Mrs. B. H. Gold, who remained loyal and considerate throughout the time required to complete this investigation. The writer is also indebted to Mr. Joe P. Case for his assistance in field work and interview and observation note typing.

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CHAPTER I

THE PROBLEM

Introduction

Although much has been written in recent years about the causes of failure of small businesses, there seems to be a continuing need for more critical analysis of the management decisions and methods of operation that have enabled owners and managers of successful and "non-failure" small businesses either to avoid or to overcome the publicized causes of failure.

'Even a cursory investigation of the collective impact of small businesses will lead to an awareness that such businesses continue to be vitally important in the sphere of American economic activity.

> For one thing, small firms provide two-fifths of total employment. They account for 40 per cent of business activity. Some 50 million Americans--the owners, their employees and families--depend on small business for their livelihood.[1]

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[1] Senator William Proxmire, Can Small Business Survive? (Chicago: Henry Regnery Company, 1964), p. 8.

Quite often, persons entering the labor market receive their opportunity for employment in small business firms. It is estimated that there are more than 4.75 million small businesses which constitute 95 per cent of all businesses in operation in this country.[1] This figure alone reveals the far-reaching effect of these firms upon our economy.

Nevertheless, an estimated 400,000 businesses were discontinued during 1965. Of these, 13,514 were recorded as business failures with a combined loss in excess of $1.32 billion.[2] Many of the discontinued firms were undoubtedly headed toward inevitable failure and their owners decided to quit business before actually failing. Such failures and business cessations not only resulted in personal loss to investors but also in economic and social loss to the cities, states, and nation as well.

If the number of business cessations and failures could be reduced substantially, more job opportunities would continue to be available. Reduced unemployment would be not only economically advantageous but also socially desirable. There would be many individuals who, through employment in small industrial businesses, would realize for the first time the personal dignity that is derived from having jobs. At a

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[1]Small Business Administration, <u>1965 Annual Report</u> (Washington, D. C.: U. S. Government Printing Office, 1966), p. 3.

[2]Dun & Bradstreet, <u>The Failure Record Through 1965</u> (New York: Dun & Bradstreet, 1966), p. 3.

time when social unrest is a problem throughout much of the nation, the need for expanded employment merits serious concern.

The American tradition of maintaining the opportunity for all to seek the goal of business ownership seems as desirable today as it was in the past. It should not be retained through the protection of the inept businessman at the expense of the more efficient business owner. Rather, through education and not from experience alone, owners and managers of small businesses should be able to acquire the necessary knowledge and know-how to operate efficiently and successfully.

Most of the industrial giants were once small enterprises. However, as they grew into big organizations, the cities and the states in which they were located enjoyed parallel growth. For example, in Oklahoma, only four organizations that, having started as small businesses, have grown into industrial giants. The _Fortune Directory_[1] of the 500 largest industrial corporations in the United States lists those four Oklahoma-based corporations: Phillips Petroleum Company of Bartlesville; Skelly Oil Company and Sunray D-X Oil Company of Tulsa; and Kerr-McGee Oil Industries, Inc., of Oklahoma City. The combined sales of these producers of natural resources in 1965 were $2.53 billion.[2] Obviously,

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[1] Fortune, the _Fortune Directory_ (New York: Time, Inc., 1966).

[2] _Ibid_., pp. 2, 6, 8, 10.

their growth and development have had a major impact on the progress of their headquarters-cities and the state.

In states in which dependence is on either only one industry or a small number of industries, economic growth potential is limited. If such states are ever to develop an economic base similar to that attained in older, more industrialized states, existing businesses must grow; and additional firms of this type must be organized.

It is industrial firms, which seem to have the best potential for becoming big businesses, that can take their place among the large businesses. Then they, too, will be able to participate in the vanguard leadership in the future growth and development of even more progressive cities and states.

Even if small industrial firms are organized and never attain the stature of "big business," they, nevertheless, will create jobs; and their owners/managers will be available to contribute time, leadership, and money to the community action and service clubs that are the "backbones" of the cities in which such firms are located. Owners and managers of small industrial enterprises also provide the leadership for many of the elective offices in city governments. It is from these individuals that many prospective state and national leaders are identified. Finally, individually and collectively, the investments of local businessmen provide the economic base upon which much of the wealth of the community, state, and nation is produced. Local businessmen who own and operate small industrial businesses have a vital role to perform. Increasing numbers of people must be prepared well to assume the responsibilities that the society places upon them.

During the past several years, numerous small business management institutes have been conducted on college and university campuses across the nation. Several such institutes have been offered by the School of Business at Oklahoma City University. Based on experiences at Oklahoma City University and elsewhere, there is evidence that many owners and managers of small businesses have had inadequate educational and experiential backgrounds for management of the kinds of business enterprises in which they are engaged. Even though the need is apparent, there have been no formalized attempts made to specify what should be contained in a course designed to prepare and upgrade owners and/or managers of small industrial businesses. This study constitutes one approach to alleviation of this situation.

Statement of Problem

The problem of this study was to develop a comprehensive outline of the content for a course in the management of small industrial businesses.

This study combines consideration of current educational theory with actual needs expressed by owners and managers of small industrial businesses who are interested in education for management of such enterprises. The study deals directly with such factors as the nature of the business, characteristics of the owners, finance, production, marketing, location, and expansion in the total pattern of the administration of the small industrial business.

Limitation

The case study data and the information presented in this study pertain only to small businesses that manufacture industrial, hardware, and fabricated products. The specific business firms are in one geographic area, metropolitan Oklahoma City. No attempt was made either to rate or otherwise to evaluate the efficiency with which the businesses were operated. Observations made by the author during plant tours were naturally confined to the scope of his background, training, and experience.

Most of the material in this study is indicative of small industrial business operations, and not of all businesses. Although the elements contained in the content outline may have equal application to large businesses, other types of businesses, and other parts of the country, no attempt was made to relate them.

Sources of Data

The data for this research investigation were obtained from: (1) published and unpublished materials about the general subject of small business and especially materials dealing with the operational problems of small industrial firms (i.e., small business administration publications, business journals, company management bulletins, management textbooks, proceedings of annual conferences on small business management development, research reports); (2) personal interviews with owners and/or managers and first-hand observation of the facilities and operations of small industrial businesses in the metropolitan area of Oklahoma City; (3) related information gained from conversations with different individuals associated in one way or another with or knowledgeable about small industrial businesses, including Small Business Administration representatives, educators, bankers, suppliers, and others.

Procedure

The first step in this study was to review extensively the available literature about small business in order to gain necessary background knowledge for this study and to make the intensive analysis of varied materials pertaining to preparation for ownership or management of small industrial enterprises.

The second step involved the formulation of an open-end interview and observation guide that was developed around the major problems that often are important in determining why businesses fail.[1] Each section of the guide was designed to be helpful in the search for the minute elements involved in one major type of business problem. The interview and observation guide was structured in such a way that probing questions could be asked in order to get in-depth quality in the responses to each section. In addition, it was structured to provide consistency in the format of the case reports that were prepared from the data recorded during and after each interview and tour of the business operation.

The third step was to ascertain from first-hand observations of operations and through interviews with the owners and managers of small industrial businesses how their businesses were started, how they have grown, and how the problems and the challenges have been met.

The fourth step involved the development of concepts and understandings about the nature of the small industrial business, the characteristics of the owners, finance, production, marketing, location, and expansion. They were derived from the case reports and related secondary information. Step four was completed when the concepts and the understandings about the operation of a small industrial business were incorporated in a basic course content outline reflecting the

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[1]For a list of the major causes of business failure, refer to The Failure Record, published intermittently by Dun & Bradstreet, New York.

essential elements of the administration and operation of such business firms.

The fifth step involved the preparation of this research report.

CHAPTER II

THE SMALL BUSINESS PERSPECTIVE

This chapter presents the perspective of the small industrial business enterprise and how it functions in this country. It is devoted to background information about the development of small industrial firms. The two major parts of it are: (1) definitions, and (2) the forces affecting small business in America.

Definitions

Two definitions of the term management adequately explain the concept of management as applicable to this study. The first definition is as follows:

> Management may be defined as the process by which the execution of a given purpose is put into operation and supervised. The combined output of various types and grades of human effort by which the process is effected is again known as management, in the human sense. Again, the combination of those persons who together put forth this effort in any given enterprise is known as "the management of the enterprise."[1]

The second definition, which is more recent than the first, indicates that: "Management is a distinct process consisting

[1] Encyclopedia of the Social Sciences (New York: Macmillan Co., 1933), Vol. X, pp. 76-77.

of planning, organizing, actuating, and controlling performed to determine and accomplish the objectives."[1] Thus, management of a small business, as in any enterprise, regardless of size, involves both the people who plan, organize, actuate, and control the operations of the firm and the process of administration.

Of the several definitions that have been used to identify <u>small business</u>, one applies more fully than any other to this research study. It is provided in Section 3 of the Small Business Administration Act as amended in 1961:

> Section 3. For the purposes of this Act, a small-business concern shall be deemed to be one which is independently owned and operated and which is not dominant in its field of operation. In addition to the foregoing criteria the Administrator, in making a detailed definition, may use these criteria, among others: Number of employees and dollar volume of business. Where the number of employees is used as one of the criteria in making such definition for any of the purposes of this Act, the maximum number of employees which a small-business concern may have under the definition shall vary from industry to industry to the extent necessary to reflect differing characteristics of such industries and to take proper account of other relevant factors.[2]

For business loan purposes, SBA defines a small business as one that is independently owned and operated and nondominant in its field, and that meets more detailed

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[1] George R. Terry, <u>Principles of Management</u> (Homewood, Illinois: Richard D. Irwin, Inc., 1964), p. 47.

[2] U. S. Congress, Senate, Select Committee on Small Business, <u>Small Business Act</u>, Public Law 536, 85th Cong., 2d Sess. As amended by Public Laws 85-699, 86-367, 87-70, 87-198, 87-305, 87-341, and 87-367, 87th Cong., 1st Sess., (Washington: U. S. Government Printing Office, 1961), p. 1.

standards developed by the Agency. These generally are as follows:

> A manufacturing concern is considered small if its average employment in the preceding four calendar quarters was 250 or fewer persons, including employees of affiliates, and is considered large if its average employment was more than 1,000 persons. If its average employment was more than 250 but not more than 1,000 persons, it may be considered either small or large, depending on the employment size standard SBA has developed for its particular industry.[1]

The Committee for Economic Development, which met in New York in 1947, formulated a list of characteristics of which at least two are present in every small business. The list of characteristics follows:

> 1. Management is independent. Usually the managers are also owners.
> 2. Capital is supplied and ownership is held by an individual or small group.
> 3. The area of operations is mainly local. Workers and owners are in one home community. Markets need not be local.
> 4. Relative size within the industry--the business is small when compared to the biggest units in the field. The size of the top bracket varies greatly, so that what might seem large in one field would be definitely small in another.[2]

There is one specific statement about an <u>industrial business</u> that is precisely applicable to this research

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[1]Office of Information Services, Small Business Administration, <u>SBA Business Loans for Small Firms</u> (Washington: U. S. Government Printing Office, 1962), p. 6.

[2]Committee for Economic Development, <u>Meeting the Special Problems of Small Business</u> (New York: Committee for Economic Development, 1947), p. 14., quoted in H. N. Broom and J. G. Longnecker, <u>Small Business Management</u> (Cincinnati, Ohio: South-Western Publishing Co., 1961), p. 3.

investigation because it clearly defines that type of business and identifies its functions. It is:

> In industrial enterprises, the people use machines and equipment to fabricate or assemble materials and parts to make the finished product.[1]

It has been possible to develop from these definitions of management, small business, and industrial business one definition that covers the meaning of the all-inclusive term, small industrial business. Such a firm is independently owned and operated and is not dominant in its field. It employs no more than 500 personnel, and its gross sales do not exceed $5 million. Moreover, it is one that manufactures either a hardware or a fabricated product, or line of products.

Small business, as it exists today, is a product of a variety of forces and is characterized by change. These forces are discussed in the section that follows.

The Forces Influencing the Development of Small Business in America

The small business appeared early in the history of America. Small businesses were established almost simultaneously with the foundation of the permanent settlements and colonization. Many factors that contributed to the early development of such businesses has continued to affect their modern counterparts. Some of the forces that helped shape

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[1]Richard N. Owens, Management of Industrial Enterprises (Homewood, Illinois: Richard D. Irwin, Inc., 1965), p. 3.

small business in America include natural resources, the people, the economic system, the changing role of government, and the activities of businessmen in association with others and as individuals.

Abundant natural resources had a marked impact on the development of small businesses and other elements of industry. Large forests, rich deposits of many ores, large bodies of inland water and waterways, a favorable climate, and vast amounts of land with fertile soil for farming were present when the first immigrants came. The natural resources provided the early settlers with the very best that nature had to offer man. The natural riches of America, most of which are still abundant, gave the people the assets that have contributed so much to the development of a wealthy nation. Small business has shared in the creation of the prosperity that has been achieved through the use of these natural assets.

People have had the most important role in the historical development of small business. A large percentage of the early immigrants to America were of European origin. They were individuals with background of the most advanced cultures of the world at that time. They possessed the daring to come to a new land that, to say the least, was undeveloped and, in many ways, unknown. With their varied trades, skills, and professional competencies, these people intermingled and developed with much creative imagination the natural wealth that they found here. They were willing workers who kept busy at their tasks of building a new nation and a new way of life. They inherited an open-end opportunity, and they also made the most of it. Small business has had in its owners and employees the primary motivation of its heritage.

The economic system that had evolved in this country has had a profound effect on small business. Although it never was distinctly a pure or laissez faire capitalistic system as defined by most economists, it has most of the essential characteristics of capitalism. Loucks defines capitalism as "a system of economic organization characterized by the private ownership and the use for profit of man-made and nature-made capital."[1] Its major characteristics are: (1) the economic man, (2) private property, (3) inheritance, (4) freedom of individual initiative, (5) competition, and (6) the profit motive.[2] These characteristics have been essential to the development of small business. Without them, small businesses, as they are known today, would have been impossible.

Yet, the economic system that has made possible the establishment and the maintenance of small business units has within itself an apparently dichotomous attribute that fosters

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[1] William N. Loucks, Comparative Economic Systems, 7th ed. (New York: Harper and Row, 1965), p. 19.

[2] Ibid., pp. 22, 25, 29 30, 33, 37.

the demise and the elimination of many such enterprises. As a result of competition, the stronger, more capably managed firms grow; and the weaker, less efficiently operated businesses cease to exist. Unfortunately, the elimination of small business units represents an economic loss to individuals and to society as a whole. Moreover, as the more successful businesses acquire considerable wealth and gain the resultant economic power, opportunities for new, small firms diminish substantially.

It is the basic policy of government in this country that an individual has the right to own and operate a business, either large or small. Although the policy has remained relatively unchanged during the years, there has been, at the same time, a substantial increase in the regulation of business by government. The increased regulation has had significant impact on the economy. Prior to 1890, there was little regulation of business by government. However, with the passage of the first major anti-monopoly legislation, Congress initiated a continuing concern for and participation in the social phenomenon called "business." Until the passage of the Sherman Anti-Trust Act in 1890, the apparent attitude of Congress was that all businesses were small and the "economic laws" provided the system of checks and balances required to maintain the health of the business environment. Federal, state, and local laws affecting practically all aspects of business have been enacted since the beginning of the 20th Century. Regulatory measures have dealt with such topics as prices, securities, competition, labor-management relations, wages and hours, trade practices, trusts, advertising, sales promotion, and product standards. It should not be inferred, however, that all legislation has been regulatory. Much legislation has been service-oriented, and agencies have been established for the purpose of strengthening and assisting the developing business enterprises. Some of the numerous services provided for business by the government include statistical and informational data about the national, regional, state, and local economies; financial assistance in the form of loans; insurance to protect bank deposits and savings; subsidization of transportation and publicly owned utilities; postal services and other communications; relief from certain kinds of taxation; the weather bureau and its sundry services; protective tarrifs; and many others.

Perhaps the most significant federal legislation of interest to the owners and the managers of small firms is the Small Business Act of 1953 and its 1958 and 1961 amendments. That legislation, in addition to defining "small business," set forth the official policy of the Federal Government concerning small business and established the Small Business Administration as the federal agency with the special function of assisting small business. The policy is contained in Section 2. (a) of the Act.

> Sec. 2. (a) The essence of the American economic system of private enterprise is free competition. Only through full and free competition can free markets, free entry into business, and opportunities for the expression and growth of personal initiative and individual judgment be assured. The preservation and expansion of such competition is basic not only to the economic well-being but to the security of this Nation. Such security and well-being cannot be realized unless the actual and potential capacity of small business is encouraged and developed. It is the declared policy of the Congress that the Government should aid, counsel, assist, and protect, insofar as is possible, the interests of small-business concerns in order to preserve free competitive enterprise, to insure that a fair proportion of the total purchases and contracts or subcontracts for property and services for the Government (including but not limited to contracts or subcontracts for maintenance, repair, and construction) be placed with small-business enterprises, to insure that a fair proportion of the total sales of Government property be made to such enterprises, and to maintain and strengthen the overall economy of the Nation.[1]

All segments of American society are directly and indirectly affected by legislative and administrative action, inaction, and decree. Small business is no exception. Although governmental assistance to small business has been increasing rapidly during the past two decades, there are some persons who believe that much more direct governmental activity is needed. Senator William Proxmire, Chairman of the Select Committee on Small Business in the United States

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[1] U. S. Congress, Senate, Select Committee on Small Business, loc. cit.

Senate, emphasizes this view in his book, Can Small Business Survive?:

> Nevertheless, while the vast majority of small businessmen do not ask for special treatment, they do demand--and rightfully so--an even break. The deck is stacked in favor of big business, financially, managerially, technically, and governmentally, and each day the situation gets worse. That is why it is so important that Congress act now. Time is running out for small business in America and this decade of the sixties will be decisive for its future.[1]

Proxmire's thoughts are indicative of what one, who has a key position of influence in government, believes to be applicable to the needs of small business. His concern in this regard is perhaps a reflection of what additional legislation affecting small business may be expected during the next few years.

Trade associations, Better Business Bureaus, and individual businessmen themselves, in addition to government, have had an increasing role in the encouragement and the regulation of business expansion and activity. Through self-discipline, business associations and individual businessmen have forestalled the need for certain kinds of regulatory legislation by government. The modern concept of the moral ethics of honesty and integrity in business has been accepted by more and more businessmen and the public as well. Factors of social and ethical responsibility are essential elements

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[1]Senator William Proxmire, Can Small Business Survive? (Chicago: Henry Regnery Company, 1964), p. 215.

of a moral code of honor for which there is no acceptable substitute in the modern business society. This is as it must be. However, newcomers to the field of business ownership must be educated to know and understand the implications for business morality contained in the rich heritage of small business in America.

In summary, small businesses have been shaped by the forces of their environment. They have inherited a vital function in the economic and social order that has helped produce within this nation the ability for only a fraction of the world's population to produce a substantial portion of the world's goods and services. In many ways, only the small businesses can economically serve many of the needs of big business. Finally, they are in a position to develop the growth patterns that someday may enable them to join the ranks of big business. They do, indeed, have an enviable heritage and a proud tradition.

CHAPTER III

PROCEDURE IN DEVELOPING THE CASE STUDY INFORMATION

This chapter presents a description of the procedure used for collecting, analyzing, and summarizing the primary data obtained through the case study technique. Included here is a description of the elements involved in the application of the case study technique and the development of the in-depth reports of the operations of the small industrial businesses studied. Each of the 15 case reports includes a comprehensive description of the nature of the business; the background of the owner; and significant facts relating to basic business functions including finance, production, and marketing; and the factors regarding location and expansion.

General Circumstances

The firms included in this study represent the diverse small industrial businesses operating in the metropolitan area of Oklahoma City. In each of the 15 firms, the individual who provided the major items of information functioned as an owner and/or manager. Consequently, it was possible to acquire information from men who possessed a comprehensive knowledge of the development and maintenance of each business. This procedure made it possible to formulate certain essential basic assumptions and to facilitate accurate interpretations of the significant findings. Additional cases would have provided much more similar data that, perhaps, could have been handled by statistical procedures. The intent of this study, however, was to acquire in-depth concepts of management and to identify success patterns essential in the operation of small businesses, and not to seek statistical validity. These concepts have been the primary basis of the development of the course content guide in Chapter IV.

A recent publication by the Industrial Division of the Oklahoma City Chamber of Commerce[1] indicates that there are 857 manufacturing firms in the metropolitan area. However, for the purposes of this investigation, producers of chemicals, synthetics, foods, and other "soft" articles were excluded. Only firms that manufacture hardware and fabricated products were studied. Less than 50 per cent of the businesses listed in the Chamber of Commerce Directory are involved in the manufacturing of "hard line" and fabricated products as defined in this study. However, enterprises such as these seem to have the greatest potential for bringing significant industrial growth to the area. Most of the other firms are

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[1]Industrial Division Oklahoma City Chamber of Commerce, Manufacturers in Oklahoma City (Oklahoma City: Oklahoma City Chamber of Commerce, n.d. (December 1966).

involved in the production of consumer goods rather than industrial products.

The firms selected in this study met the following criteria:

1. They manufacture hardware and fabricated durable products.
2. They have between 10 and 300 employees.
3. They have a local origin and ownership.
4. Their sales volume does not exceed $5 million annually.
5. Their owners/managers expressed willingness to participate and to provide confidential data.

The case study prospects were identified from two sources. The main one was Oklahoma City Area Manufacturers--1961,[1] with supplemental lists secured from the Industrial Division of the Oklahoma City Chamber of Commerce. E. Bruce Cafky, Manager of the Oklahoma City Office of the Small Business Administration, furnished a list of firms in addition to those obtained from the main source.

The owners and/or managers interviewed represented firms chosen at random from a list of 392 firms, and all firms fully met the established criteria.

A telephone call to the owner/manager preceded each case investigation. After the prospective interviewee was

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[1]Industrial Division Oklahoma City Chamber of Commerce, Oklahoma City Area Manufacturers--1961 (Oklahoma City: Oklahoma City Chamber of Commerce, 1961).

told of the full intent of the study, he then indicated his willingness to grant the researcher admittance to all plant, storage, and office facilities and to confide in him certain "classified" information that he might not ordinarily be expected to release to anyone. The author pledged that all data and case reports would be written in such a way that identity of the firms would not be readily apparent.

The case studies were begun in May, 1963. The completion of the first three case studies involved considerable time and follow-up in order that the interview and observation guide could be perfected and the written case report form could be precisely developed. After the interview and observation guide and technique of interviewing and the written case report format were finalized in June, 1966, it was possible to complete the remaining cases in the four-month period, July to October, 1966.

Each case investigation was conducted on the premises of the firm whose owner/manager was interrogated. Thus, it was possible to observe the physical facilities, personnel, working environment, and other general conditions of the enterprise. In addition, the interviewees could refer to fiscal data, accounting records, and reports of expansion plans and experiences. It was possible to observe first hand the general physical characteristics of the firm.

The time spent in the interviews and plant visitations ranged from two to five hours, depending upon the interruptions encountered; the extent of the interest and the cooperation displayed by the interviewee; his ability to articulate his responses to the depth questions; and the facility with which this researcher established a rapport that enabled the businessman to relate freely his background and experiences, as well as his firm's methods of operation, and to discuss his personal and his firm's future plans and aspirations. Generally, the businessmen were interested in discussing their management problems and opportunities. They exhibited a basic pride in the ways they had been able to meet many of their business challenges. They seemed appreciative of the interest shown in their business operations.

In each case, the interview with the owner/manager was conducted through discussion with the use of a structured open-end outline of the interview topics. Data regarding the nature of the business were recorded during the interview, and the observation of the production operation data were noted immediately afterwards. During the visitation, only minimal notations were made so that a rapport was established for the free and candid expression of ideas by the owner/ manager.

The outline was used to insure uniformity in the gathering of case information. However, as new topics were identified, follow-up contacts were made with respondents who had been interviewed earlier in order to expand their case data to the stage of completeness required to insure uniformity of understanding and consistency of detail.

The Interview and Observation Guide

One of the steps in the procedure for this investigation involved the preparation of a comprehensive interview and observation guide that was used in gaining the information with which this study is concerned. The outline of the guide was structured around a positive approach to the major "pitfalls in managing a small business." The guide was developed in its final form after the first three firms were visited. This made possible the determination of the availability and importance of certain information, the need for additional types of data, the adequacy of the questioning procedure, and the most appropriate methods for conducting the interviews, making observations, and recording the data. Follow-up contacts were made with the first three businessmen in order to refine the data needed and to make their case reports consistent with the format and the content of the remaining cases. Fifteen small industrial businesses were studied in order to gain the in-depth information with which this investigation was concerned.

A completed interview and observation guide is presented here to illustrate how the information obtained was recorded for development later into a case study report.

Date August 9, 1966
Code Number 11

INTERVIEW AND OBSERVATION GUIDE

1. NATURE OF THE BUSINESS

A. Data concerning the business operation

Type of organization corporation (1945)
Principal product(s) pumps and compressors used in the liquified petroleum gas industry
Physical facilities 29,000 sq. ft. -- 4 years old
Plant size, location 25,000 sq. ft. -- Northwest Oklahoma City
Warehouse size, location combined with plant
Office size, location 4,000 sq. ft.
Production facilities metal-working equipment for turning and boring: lathes, mills, drill presses; and assembly and plating facilities
Number of employees 75
Job classifications (by divisions) four divisions: engineering--4, including executive vice pres.; sales and service--8, including president; office--8; and production--remainder. Each division headed by a supervisor.
Employee relations
Union or nonunion nonunion--organization defeated by one vote approximately two years ago
Fringe benefits paid holidays: 2 wks. vacation and sick leave; free hospitalization insurance on employees and dependents; life insurance on employees; furnished uniforms; paid pension and retirement benefits; 50% payment of cost of courses
Number of customers market-wide
Market area international market--20% in exporting
Annual sales $2,300,000
Assets -- monthly average
Current
Accounts receivable $193,000
Inventory
Raw materials
Work-in-process $300,000
Finished goods

Fixed	
Tangible	$263,000
Intangible	none
Liabilities -- monthly average	
Short-term	$286,000
Long-term	$157,000
Owner's equity	$500,000
Surplus	none

B. Distinctive characteristics or organizational objectives

Wants versatility in his employees--broad range of background experiences needed. Practical application of knowledge. It takes time to indoctrinate and fit in new people. What they are producing is their own wealth--if they would only produce. Lead men are not the best craftsmen--they are leaders. Could cut employee number in half if all were the same caliber as the division supervision.

II. CHARACTERISTICS OF THE OWNERS

A. Socio-economic

Founder established a manufacturer's representative agency in 1907 that became the foundation for this corporation. Founder's son and a friend (now executive vice president), joined by the founder, chartered this corporation in 1945.

B. Educational

Executive vice president was graduated with BS in architectural engineering from a midwestern state university in 1942.

C. Business or work experiences

After graduation from college the executive vice president joined a national oil company for 3 years. He was a resident construction engineer at its national offices in NE Oklahoma. He became corporate vice president in 1945 at the time of organization, though he held no stock in the company until 1957, when the founder died and his son succeeded him. After the son's death in 1962, the executive vice president and an associate purchased controlling interest in the corporation. The associate, who operates an unrelated manufacturing firm adjacent to this business, is also president of this firm.

D. Affiliations -- professional, civic, personal

Member, Oklahoma Society of Professional Engineers and Oklahoma City Engineers' Club. Church member.

III. FINANCE

A. Beginning capital

Starting capital derived from the founder's manufacturer's representative agency. Stable financial position achieved only after abolishing the agency in 1957 after founder's death. No company can be started without the founders' being good stewards of money.

B. Capitalization of expansion

Through bank loans, retained earnings, and borrowing on invoices.

C. Fiscal management

1. Accounting records

Monthly statements, annual budgets, semi-annual sales forecasts. Latter handled by sales and service division. All reports reviewed by office manager and executive vice president. Established own record-keeping system. Attempts to use CPA unsuccessful, though CPA does audits. American Management Association courses used by administrative personnel. Office division operates with minimum number of employees.

2. Compensation of the owner/manager

Regular compensation, although not always sufficient in the beginning years of operation.

3. Earnings retention

Earnings are retained in the corporation to increase capitalization.

4. Insurance

Full product liability insurance. No claims.

IV. PRODUCTION

A. Nature of operation

Assembly line -- mass quantities.

1. Production control

Production orders from sales forecasts. Occasionally "out of kilter" -- but averages out over a year's time.

2. Quality control

Spot inspection tours at regular intervals. Test procedures for each product. Inspection department handles incoming materials, too.

3. Patents

Several products covered by patents. Looked upon as enhancing salability, not from legal protection viewpoint.

B. Procurement

Materials available in region -- most distant is Denver. No problems, but Viet Nam was could cause severe restrictions. Governmental regulation of raw materials is felt to elevate prices.

C. Warehousing

Products shipped to distributors' warehouses.

D. Inventories control

Dictated by sales forecasts.

E. Transportation

Motor and air freight; cargo ships.

V. MARKETING

A. Marketing organization

Originally, salesmen employed by company sold directly to consumers. Now uses middleman almost exclusively, except for a few long-time customers.

World wide sales force was felt to be unwieldy, since 20% of products are exported.

B. Advertising

In trade journals on regular basis.

C. Sales promotion

Publication of sales literature, catalogs, fliers. Occasional direct mailings not considered too effective. Company prepares own lay-outs and printing. Trade shows used frequently.

D. Credits and collections

Dun and Bradstreet ratings; bank credit, C.O.D., sight drafts. 1/10, n/30 terms. Bad debts: budget = $1,500 or .06%.

E. Pricing policy

Very extensive and time-consuming analyses. Cost sheets on each product -- material and labor costs known. Competitive price taken into account, also. Re-analysis when company's financial status changes.

VI. <u>LOCATION</u>

A. Geographic

1. Raw materials -- readily available.

2. Market -- World-wide market; mid-continent location is equidistant to coasts.

3. Transportation -- readily available, reasonable rates.

B. Locale

1. Own or rent

Owned by corporate president and executive vice president, leased to corporation.

2. Room for expansion

No, according to the executive vice president, either the adjoining firm or this company will have to vacate facilities within next 3 years.

Necessary because an increase of 25% in present production rate will require additional space for operations.

VII. EXPANSION

A. Facilities

Negotiations under way for new site.

B. Product line

No plans.

C. Market

No plans.

D. Plans for long-term continuity of the business

Company this size cannot have assistants to assistants. Not much depth to organization, but not much we can do about it. One employee's responsibilities could be divided among others above and below him. Little thought of perpetuity of the business until former president's death (age 52). No real solution is apparent. President is unwilling to divest himself of interest in the company, thus stock options are vetoed.

Report of a Typical Case

Presented in the Appendix are the 15 case study reports on which this dissertation is based. However, case number 11 is presented here in order to facilitate reading continuity and to communicate precisely how each case was developed from the completed interview and observation guide. Each of the case studies is written in the present tense to indicate conditions and practices that existed at the time of the interview. Since that time, however, various changes in business practices and managerial personnel may have been made. Nevertheless, it is necessary that it be assumed that these cases describe basic and fundamental business knowledge and know-how utilized in ownership and/or management of small industrial enterprises.

The completed interview and observation guide for Case 11, as presented in the preceding pages of this chapter, was utilized in the preparation of the case report applicable to the particular small industrial firm. The entire case report for that firm is presented here.

Case 11

Nature of the Business

This corporation is a producer of pumps and compressors used in the liquified petroleum gas industry. It was founded in 1945 as an outgrowth of a manufacturer's representative agency that had been in operation since 1907. The company has a world-wide market and exports approximately 20 per cent of its total production.

The company's present physical facilities are about four years old. Production and warehousing account for 25,000 of a total of 29,000 square feet, with the remaining 4,000 square feet being devoted to office space. Production machinery includes turning and boring metal-working equipment, such as lathes, mills, drill presses, and assembly and plating facilities.

There is an average of 75 employees in the four general divisions, each of which is headed by a division manager. The engineering division has four employees, including the executive vice president; the sales and service division, eight employees, including the president; the office division, eight employees. The remaining 55 employees are assigned to the production division.

The company's personnel are not unionized, although only two years ago they rejected a bid for unionization by a one-vote margin. No attempts to organize them have been made since that time. The company provides extensive fringe benefits for its workers, including paid holidays, two-weeks vacation, and sick leave; free hospitalization insurance for all employees and their dependents, life insurance for all employees and their dependents, and life insurance on employees; free uniforms; retirement and pension benefits paid by the company; and company payment of 50 per cent of any training courses taken by its employees. Workers who successfully complete training courses that are mandatory for advancement receive bonuses also.

The company's financial status is as follows: annual sales, $2,300,000; accounts receivable, $193,000; total inventories, $300,000; fixed assets, $263,000; short-term liabilities, $286,000; long-term liabilities, $157,000. Owners' equity totals $500,000.

The biggest problem of this company is what the executive vice president calls lack of "versatility in people." By this, he means that his personnel need a broader background. This is particularly true of the individuals in managerial positions. He believes that too frequently employees come into a business with little or no background in such things as basic English, business, and engineering; i.e., they cannot make practical applications of knowledge that they may have gained in college. It takes time to indoctrinate and fit these people into the operation. The average employee often does not realize that, when he is producing at his maximum capacity, he is enhancing his own position with the company. The lead men are not always the best craftsmen but rather the demonstrated leaders--those who show diligence, persistence, and ingenuity in their work. The executive vice president feels that he could reduce his employee force by half, if he could have as high a caliber of individuals as that in his corps of division managers.

Characteristics of the Owner

This small industrial firm is an outgrowth of a manufacturer's representative agency that was started in 1907. In 1945, the agency founder's son and a friend began manufacturing operations within the framework of the manufacturer's representative agency. The original incorporators included the founder as president; his son's friend as vice president and his son as secretary-treasurer. The founder continued his operation of the manufacturer's representative agency until his death in 1957, when the company dropped its representative affiliation. When the son, who had become corporate president at his father's death, died in 1962, his friend and an associate purchased controlling interest in the corporation from the estate. The friend, who had been corporate vice president and chief engineer of the manufacturing operation, became executive vice president under the new ownership. The president also heads an unrelated manufacturing corporation that is adjacent to this business.

The executive vice president is the chief administrator of the corporation. He was graduated with a bachelor's degree in architectural engineering in 1942 from a midwestern state university and joined a nationally-known oil company for three years as resident construction engineer at its national offices in northeast Oklahoma. In 1945, he joined his late corporate partner in establishing the manufacturing operation with financial assistance from the founder. Since the start of manufacturing operations, this businessman has held the position of corporation vice president, although he has actually owned stock in the corporation only since 1957. Prior to that time, he had been associated with the business through a contract agreement. He is affiliated with several professional societies and is active in his church.

Finance

Starting capital for this business came originally from the profits of the founder's distributing agency. Financial stability came only after the company abolished its wholesale activities. Manufacturing operations were begun as a result of the recognition of the potential present in the emerging LPG industry immediately following World War II.

From the beginning of manufacturing, the two younger incorporators received regular, although not always adequate, compensation from the business. A credit rating for the business was very difficult to establish. Several times the company found it necessary to borrow on invoices and to negotiate bank loans. The executive vice president strongly believes that "no company can be started without the founders' being good stewards of money."

Present-day financial management includes monthly financial statements on complete operations of the business. The company operates on a yearly budget, which is adjusted monthly to meet the demands of production. Sales forecasting is done semiannually by the sales and service division and is reviewed by the office manager and the executive vice president. The accounting and record-keeping system is essentially self-designed; although, according to the executive vice president, "it has undergone tremendous evolution." Several unsuccessful attempts have been made by a certified public accountant to standardize the accounting system. An annual audit is made by a CPA firm. American Management Association short courses taken by administrative personnel in area universities have been beneficial in modifying the accounting system of the expanding business. The executive vice president indicated that the office division operates with an absolute minimum number of employees for the volume of work undertaken.

The company carries product liability insurance; however, no claims have been made against this protection. Several of the company's products are patented, but the executive vice president regards patent protection as merely a prestige factor to enhance the products' salability. He has little respect for patent protection from a legal aspect because of the great similarity of products patented in this general field.

Production

Production of the company is in mass quantities and by means of an assembly line operation. Production schedules are based on sales forecasts approved by the executive vice president. All production is done in anticipation of product demand. According to the executive vice president, "Occasionally the production and demand levels get 'out of kilter,' but they balance out pretty well over a year's time."

Regular spot-inspection tours are taken by quality control inspectors. The inspection department receives all shipments from suppliers. Inspection of incoming materials varies from spot checks of package contents to 100 per cent inspection. For each item produced by the company there is a test procedure outline, so that each product is thoroughly examined before shipment.

The company has had no problems in procurement; however, the executive vice president realizes that the Viet Nam War could cause severe problems in production. According to him, "Since I have no control over it, I lose no sleep about it." Materials and supplies are available within the region. The most distant location of materials is Denver, Colorado. The executive vice president believes that government regulations affect adversely the supply and costs of needed raw materials; however, this company has no choice except to pay what this businessman considers to be an inflated price.

Marketing

Sales are handled by wholesalers who take title to and possession of the products manufactured by this company. The company ships to dealer warehouses throughout the world in areas of liquified petroleum gas usage. When the manufacturing operations were begun, the company employed salesmen who sold directly to the consumers; however, the decision to use wholesale agents, rather than to expand the company's sales force, shifted the emphasis from a direct sales effort to the use of middlemen. On occasion, the company continues to sell directly to a customer of long standing, but this is done only as a service to the long-time customer. The sales emphasis was changed because the company did not want to bear the expense and/or cost of expanding its sales organizations. The expansion of the market area was also considered. This company's management believed that the control of a widely scattered sales force would be almost too big a problem. The company distributes about 20 per cent of its total production in foreign (extra-continental) markets in Asia, Western Europe, and Australia.

Sales promotion is handled by the company principally through advertising in trade journals and through publication of sales literature, including catalogs and promotional fliers. Direct mailings are used intermittently; however, the management questions their effectiveness. The company's staff does its own layout work and printing. Frequent trade show exhibits also enhance the sales promotion efforts.

The company relies on Dun and Bradstreet ratings in deciding whether or not to extend credit to prospective customers. Credit terms are 1/10, n/30. Bad debts are budgeted at $1,500 annually and approach approximately .06 per cent of total sales. For customers who do not qualify for open accounts, bank credit, sight drafts, and C.O.D. terms are used.

What the executive vice president describes as "a very extensive and time-consuming annual analysis" of product prices is made by the administrative personnel. Cost sheets are maintained for each product, and exact material and labor costs are known. Cost considerations, including an analysis of competing prices, determine the basis of the company's pricing policy. Any change in the financial status of the company is analyzed carefully to determine whether price adjustments will be necessary.

Location

The company is well located, geographically, because raw materials are readily available within the region. Most of the company's products are shipped either by motor freight or air freight on a collect basis. Freight lines provide excellent service at reasonable rates. Since the company has a world-wide market, Oklahoma City, situated approximately mid-continent and equidistant between the two coasts, provides a central location for distribution.

The company's location is in a relatively sparsely populated, suburban part of the city, although there are several other small industrial firms in its general vicinity. This location is the fourth plant site since the company began manufacturing operations in 1945. The executive vice president says that

> either the adjoining firm (owned by the president of this corporation) or this company will have to vacate its facilities within the next three years. This will be necessary because an increase of 25 per cent in our present production rate will require additional space for the company's operations.

Negotiations are presently being made to secure land for a new site. The present property on which the two companies are located is owned by the president and executive vice president and is leased to the two separate corporations.

Expansion

The administrative personnel are relatively young. According to the executive vice president, "a company of this size cannot have assistants. We do not have much depth, but there's not much we can do about it." Within the company's structure, assistants and those in immediate submanagerial positions have a working knowledge of the operations of the higher positions. Although there is no one "waiting in the wings," any single function could be performed temporarily by a number of personnel who could assume added responsibilities.

Long-term continuity of the business requires the attraction of capable younger men who can assume top management positions. Until the death of the former president, who at the time was 52 years of age, little thought had been given to perpetuity of management and ownership. Today, however, the management realizes that this is a problem that must be solved in the immediate future. Stock options appear to be out of the question at this time because the president is unwilling to divest himself of any interests in the company. No practical and easy solutions have been found.

Summary of Management Problems

1. Nature of the Business.--This company had one attempt to unionize two years ago. The employees defeated the organization attempt by a one-vote margin. The company's management is strongly anti-union

and believes that no employee could receive better fringe benefits or wages from any of its competitors.

2. Characteristics of the Owner.--This business was founded by and has had the leadership of educated men. Yet, it has undergone three major changes in its principal administrative office. The individual who financed the organization of the venture had had a long and successful experience as a manufacturer's representative. He, in association with his son and his son's engineering classmate, upon their graduation from college, comprised the management team which operated the firm. In 1945, the founder died, and his son assumed the role of chief executive until his death in 1962. At that time, the remaining member of the original management team, now the executive vice president, and a wealthy associate purchased controlling interest in the business.

3. Finance.--The manufacturing operation was begun with no capital of its own. The operation relied upon the founder's agency as a source of working capital. Financial stability was attained only after the company ended its wholesaling operations, twelve years after manufacturing activities were begun. A credit rating was very difficult to establish because of the company's weak fiscal status. Compensation for the administrative personnel, although received at regular intervals, fluctuated in amounts.

The company established its own accounting and record-keeping system. On several occasions, the firm has attempted unsuccessfully to use the services of a certified public accountant to standardize the system. The system is that of the management's own creation and has been modified by the management to fit the company's changing needs.

4. Production.--Production operations are begun after the sales forecasts have been approved by the executive vice president. The company manufactures its products in anticipation of market demand. Occasionally production outstrips demand; however, over a period of 12 months, the two counter-balance each other.

If the Viet Nam War should escalate more rapidly in the future, raw material supplies for the company's production activities would become almost unavailable for civilian manufacturing purposes. Present governmental restrictions have already elevated procurement costs and have limited material supplies somewhat.

5. Marketing.--This company has gradually shifted its market objective during the period since it began manufacturing. At first, almost all of the company's products were distributed directly to its consumers. The procedure has been modified so that distributors now handle most of the company's sales. This procedure was chosen to avoid expanding the size of the firm's sales organization needed to cover a world-wide market.

6. Location.--This company and another unrelated corporation, both of which are headed by the same president, are located on a plot owned by the president and executive vice president. If the present growth rates of the two companies continue, one of the companies will have to move to a new location within the next three years. Although negotiations to obtain new property are in process at this time, the move will nevertheless be rather costly for the departing firm. The present site is the fourth location occupied by this company during the past 20 years.

7. Expansion.--Little consideration had been given to the long-term perpetuity of the corporation until the death of the founder's son, the former president, in 1962. The executives of the company now realize that a system must be developed by which younger men can be brought into the administrative structure of the company; however, as yet, no definite plans have been approved.

Summary

This chapter describes the procedure used in developing the case study information. Each of the 15 cases that appears in the Appendix is an in-depth report about a small industrial business that manufactures a hardware product or line of durable products.

The information contained in the cases was the basis for the development of the outline of the content for a course in the management of a small industrial business. That outline, as it is presented in the chapter which follows, represents the culmination of this research investigation.

CHAPTER IV

FUNDAMENTAL ELEMENTS IN THE MANAGEMENT OF SMALL INDUSTRIAL BUSINESSES

From the outset, it was the intent in this research study to develop a course content guide. The primary information and data on which such a guide must be based is presented in Chapters II and III, background information and the procedure for developing the case study information as presented in the 15 in-depth cases.

So that the fundamental elements might be concisely presented, this chapter is divided into two main parts. In the first relatively brief part, is set forth the philosophy of administration. In the second part that constitutes the major portion of the chapter, the content of the course is outlined from the background information presented in Chapter II, from a survey of selected literature, and especially from the data contained in the case studies.

Philosophy of Administration of a Small Industrial Business

The impact of the small industrial business is far-reaching. Not only does it manufacture a useful product that ultimately results in an improved standard of living for the people who have derived from it either direct or indirect benefits, but it also creates jobs that provide expanded purchasing power for employees. Its existence is justified by the fact that the product it manufactures can be sold at a price that covers the costs of business operation and that returns to the owner a reasonable profit that compensates him for his assumption of the risks of ownership.

Competition among small industrial firms tends to stimulate functional improvements in existing products or the development of new lines of products. Moreover, it causes the escalation of wage rates for production employees as they acquire specialized skills demanded by most such businesses or their larger counterparts. Owners of small industrial firms strive to gain a competitive advantage by providing a distinct production capability that may not be available elsewhere in the area served.

A small industrial business is a vital part of the city or area in which it operates. In many ways, it is a product of its environment; yet, it can assume a vital role in the development of its own environment, if its owner and other key personnel accept responsibilities in community action and service organizations. Attainment of the title of "industrialist" is a distinction granted the businessman whose organizational ability, financial expertese, and enthusiasm extend outside his own organization into positions of leadership within the community in which his business is located.

Recognizing the validity of the adage that "an institution is but the lengthened shadow of a man," a small industrial firm reflects the hopes, dreams, and aspirations of its owner. The success of the enterprise will in a very real sense be apparent in the attitudes and abilities reflected by the owner. Four qualities that are essential are persistence, patience, capacity for growth, and humanness. Although the small industrial enterprise is involved in technical activities, it is, like any other business, a social institution that is comprised of people. The owner is responsible for creating an atmosphere that will result in good human and public relations with employees, suppliers, customers, and competitors.

In order to fulfill his role as a teacher-trainer, the owner of a small industrial firm should seek to attract the kind of persons who, as employees, can learn and will apply diligently that which has been learned. Such employees should be encouraged to develop and use their own abilities because it is largely through their accomplishments that the business will grow.

Compensation of employees should be based on the skills demanded by their jobs, the prevailing wage rates in the area, and the ability of the organization to pay. As the business prospers, employees who have contributed to its success should share in the prosperity. In this way, the firm should be able to create the kind of loyalty that will cause employees to stay with the organization and to grow as it grows.

Of course, it should be recognized by the owner that personnel need more than a sound compensation plan. In life, it seems that, oftentimes, it is the "little thing" that is really the difference between satisfaction and dissatisfaction. Employees need to know what is expected of them and to receive praise and recognition for jobs well done.

Many of the giants of modern industry were once small industrial firms. Because their owners dreamed and dared to implement their ideas, America is the material envy of the world. It is important that future "industrialists" also have the opportunity to dream and to put into effect their own creative ideas for technical production and business operation. Their ideas could have an immeasurable impact upon the lives of future generations. It does, however, seem unnecessary for aspiring businessmen to have to learn from experience alone some of the specific management concepts inherent in owning and operating a small industrial firm.

Content of Small Industrial Business Administration

Owners and managers of small industrial enterprises should find the information in the course content guide to have practical applicability to their business problems because it has been developed around those common problems that result in numerous business failures. Special efforts should be made to provide beginning businessmen with the experiential concepts of management that are presented in the course content guide.

Our society must do everything in its power to prevent the economic loss that results from business failure. Not only is the economic loss of great concern, the social loss is also of vital significance. It strikes at the very heart of the development of a more progressive city, state, and nation that are striving to offer greater social and economic opportunities to more and more people. Jobs and their resultant purchasing power, not welfare doles, generate in men an appreciation of and pride in themselves. Informed owners and managers of small industrial businesses should be better prepared to avoid or to overcome management problems as they are confronted.

The course content guide for management of a small industrial business, as an important phase of the preparation for ownership and/or operation of these kinds of firms, is divided into seven sections. At the first of each section is a brief <u>guide statement</u> which is intended to establish in a general way the gist of that particular part of the total outline. Following each guide statement, there is a relatively <u>concise outline</u> of the significant elements pertinent to the section topic. The total outline pattern emphasizes the matters with which the prospective owner/manager of a small industrial business should be concerned. It does not reveal all that he should know about business in general and small business in particular. With this guide, however, a course pattern for the administration of a small industrial enterprise can be developed, and many of the specific content elements can be established in scope and sequence.

The major sections of the guide, which include brief but specific consideration of the elements of business competencies, are entitled:

I. Nature of the business.

II. Characteristics of the owners.

III. Finance.

IV. Production.

V. Marketing.

VI. Location.

VII. Expansion.

GUIDE TO INSTRUCTION FOR A COURSE IN THE MANAGEMENT OF SMALL INDUSTRIAL BUSINESSES

Section I -- Nature of the Business

Guide Statement

A small industrial business generally performs the essential function of manufacturing one of the myriad of products that cannot be produced economically by large industrial concerns. It is allied with a major industry and it tends to operate as an adjunct, independent business entity that exists to fulfill some specific need of the larger industrial firms related to it. With only a minor role in the total interdependent industrial complex, a small industrial business is usually dominated, although not directly controlled, by its larger counterparts. The inherent tendencies of a small industrial business stem from the personal satisfaction gained by its owners in deriving profit from the manufacture and sale of a useful product, or limited line of products, and from the economic justification for its existence. Of fundamental import to the nature of a particular small industrial business are its basic objectives, its product or product line, the ingenuity of its owners, and the kinds of relationships which it maintains within the major industry.

A. Classifications of small industrial firms by function.

1. Independent organization serving an industry dominated by large business units with which a condition of interdependence exists.

2. Dependent, but legally separate, organization that exists to manufacture products needed, perhaps exclusively, by a parent concern.

3. Independent business that is pioneering a new and undeveloped industry.

B. Environmental factors that determine the nature of a small industrial firm.

1. Attitudes and basic concerns of the owners.

2. Industry forces over which the small company has little if any control.

3. The demands of the market.

4. Conditions and attitudes in the community, state, and region where the business is located.

5. Attitudes and work habits of employees.

6. Local, state, and federal legislation.

C. Purposes that form the foundation for the organization and development of the small industrial business.

1. Participation within the spirit and responsibility of free, competitive price enterprise.

2. Achievement of economic justification for existence through the manufacture of a useful product or line of products that can be sold at a competitive price.

3. Earning of a profit margin that will enable the business to share in the long-run expansion of a healthy economy.

4. Meeting the challenges of growth and change that are essential to any small industrial business.

5. Assumption of the responsibilities of citizenship through active participation in and contribution to the social well-being of the community in which the business is located.

D. Considerations required in the identification of products that can be manufactured by small industrial firms.

1. Identification of a demand for a product or product line that the business is competent to produce.

2. Accurate determination of the initial investment re-requirements.

   a. Costs of physical facilities including manufacturing equipment.

   b. Costs of engineering.

   c. Unit cost of the product.

   d. Labor costs.

3. Certification that patent rights may be granted or that existing patent rights do not prohibit production of the desired product or product line.

4. Correlation of product or product line with the nature of the business.

5. Innovation or duplication of competing products.

6. Production capabilities in the particular small industrial business.

7. Certainty of raw material supply and costs (e.g., peacetime as well as during periods of national emergency).

8. Engineering capabilities and essential equipment in the particular small industrial business.

9. Marketing capabilities that enable the small company to compete.

a. Forecasting of market size, diversity, and degree of need.

b. Pricing the product or product line competitively.

c. Securing sales personnel who possess the qualifications needed to promote required sales volume.

d. Developing advertising and sales promotion at costs that are compatible with market potential.

e. Acquiring storage facilities that are adequate to afford economical management of inventories.

E. Elements that determine the "image" created by the business.

1. Unique planning of the development of company objectives that combine carefully researched industry and market information with the basic attitudes and philosophy of the owners.

a. Policy formulation for accomplishment of company objectives.

b. Budgeting of costs and performance standards to establish short-run operation and control schedules.

2. Functional organization to determine the legal basis of participation of the "blue print" of company operations that includes the assignment of functions and duties to divisional and departmental units, and to assign specific tasks and authority to individual employees.

a. Common types of legal organizations for small industrial businesses.

(1) Sole proprietorships.

(2) General partnerships.

(3) Corporations.

b. Diagraming company structure to reveal lines of authority, areas of responsibility, and internal channels of communication.

c. Staffing the organization with capable personnel through whose personalities the small industrial business acquires much of its "personality."

(1) Selection of personnel based on carefully developed specifications of jobs to be performed and on thorough investigation of the qualifications of applicants.

(2) Exhaustive and continuous training to individual employees who possess growth potential.

3. Administrative competence to implement and control plans and procedures that will result in the relationships within the major industry with which the small industrial business is involved.

F. Operational elements in the relationships within the major industry with which the small industrial business is involved.

1. Supplying parts and equipment.

2. Supplying skilled personnel since the small firm serves as a trainer of skilled workers.

3. Subcontracting for large firms that cannot or do not choose to perform all manufacturing operations required to produce a product line.

4. Purchasing the products of large firms.

5. Innovating without the expense and degree of inherent risk that would be required of large businesses.

6. Competing and sustaining freedom of opportunity through free, competitive price enterprise; hence, anti-monopoly.

7. Stimulating social and economic progress.

8. Stabilizing prices.

Section II -- Characteristics of the Owners

Guide Statement

The individual who owns and operates a small industrial business exhibits specific and distinct motives and capabilities. Possessing mechanical aptitude, he strives to make things. He feels the kind of satisfaction that comes from the creation of a functional product and enterprise. He achieves status and personal gratification in his role as an employer. Some such businessmen capitalize on opportunities that develop at certain times in certain places. Others grow in stature through the exercising of potential that may not correlate with the extent of their formal education. This is often because of their dogged will to succeed. Persistence and patience appear to be the principal virtues of the owners of small industrial businesses. Associated with these is willingness to work hard for the accomplishment of clearly defined objectives, one of which must be the making of a profit. Their businesses dominate their lives, their thoughts, and consume most of their energy. The most successful of these businessmen appear to possess uncanny ability to see the true value in new ideas for products.

A. Motives of owners of small industrial firms.

1. Desire to engage in independent action.

2. Desire to function as an employer rather than an employee.

3. Desire to earn status and prestige as a manufacturer.

4. Desire to earn the economic rewards available in business ownership.

5. Desire to exercise civic responsibility and leadership through the manufacturing of a useful product.

B. Character traits compatible with motives possessed by owners of small industrial organizations.

1. Ambition or the "insatiable drive for accomplishment."

2. Versatility in the form of ability to react appropriately to that which is unexpected.

3. Emotional stability derived primarily from the exercise of persistence and patience.

4. Capacity to turn such things as inability to secure employment or inheritance of an existing enterprise into opportunities in business development.

C. Personality traits compatible with basic motives and character traits of owners of small industrial firms.

1. Sociability through interest in and consideration for people as individuals.

2. Loyalty to purpose, employees, customers, and the community.

3. Enthusiasm indicative of a positive attitude that is contagious.

4. Effectiveness of communication that commands attention.

D. Mental attributes of importance to owners of small industrial firms.

1. Intelligence that is applicable to the mechanical operations that are the essence of the small industrial business.

2. Perception that is coupled with a capacity for management to implement the development of a business.

3. Judgment that is a composite skill involving analytical consideration of facts, reason, and feeling.

4. Knowledge that is essentially factual information about the business--its personnel, its market, and its internal operations.

5. Technical competence in a specialized area of learning that is the "badge" of genuine ability.

6. Creativity and imagination in finding new products and/or innovating existing products or in solving management problems.

E. Executive or managerial attributes essential to owners of small industrial concerns.

1. Planning skills that involve formulation of strategic organizational objectives of both short-run and long-run duration; policies, group activities, and procedures; and products or product line.

2. Organization skills that involve the implementation of plans, policies, and procedures through functional units by assigning specific duties and responsibilities to individual employees.

3. Controlling skills that involve actuation of predetermined functional operations and continuing evaluation for accomplishment of or restatement of planned objectives.

F. Other attributes essential in owners of small industrial enterprises.

1. Good health that provides both mental and physical capacity for ownership and management.

2. Energy evidenced in the stamina and vitality needed for the pursuit and accomplishment of objectives.

Section III -- Finance

Guide Statement

The acquisition of adequate risk capital without loss of control of the enterprise is one of the most challenging problems confronting owners of small industrial businesses. Businessmen often forego personal compensation for extended periods of time in order to be able to retain earnings within the business; thereby, providing a solid financial foundation for growth of manufacturing and marketing capability. Although growth may be gradual, when the policy of capitalization of expansion from retained earnings is followed exclusively, management is able to maintain control of the enterprise. The use of borrowed capital can be an effective inducement for growth, provided it is available and provided it is used wisely and with discrimination. Management of these and other distinct financial problems involves the cultivation of adequate sources and types of capital needed; analytical consideration and control of the pecuniary determinants of the particular small industrial business; and minimization of risks through competent accounting and legal counsel and a complete insurance program which includes especially product liability protection.

A. Sources of capital.

1. Personal investment in the business.

    a. Savings acquired from the practice of thrift in personal money management.

    b. Gifts received from relatives and friends.

2. Loans obtained from individuals, commercial lending institutions, government agencies, private agencies of cities or chambers of commerce, and other businesses.

3. Sale or share of equity through corporate or partnership interest.

B. Types of capital needed.

1. Risk capital that enables the enterpriser to pursue his goal of business ownership.

2. Fixed capital that is invested in the necessary equipment and physical facilities of production.

3. Working capital that provides the necessary cash for current operations and expenses in addition to the financing of accounts receivable and raw material and finished goods inventories.

C. Management of the capitalization of expansion.

1. Retaining earnings in the business is an essential principle of successful management.

2. Judicious use of credit involving the careful selection of the type of borrowed funds to obtain, the desired time when such funds should be secured, and the determination of a reasonable level of indebtedness over which the firm should not become obligated.

D. Pecuniary determinents of expense requirements.

1. Budgetary control of available working capital.

2. Investment in material and supply inventories that is justified by the firm's relationships within its industry and with its customers.

3. Accounts receivable that must be financed by the enterprise in order to maximize profitable sales volume.

4. Investment in finished goods inventories that is adequate to meet demand but which can be liquidated within the normal course of business.

5. Factor of distance from customers and supply sources as related to the size of raw material, supply, and finished goods inventories.

6. Nature of the product or product line as it relates to manufacturing costs.

7. Nature of the product or product line as it relates to selling costs.

8. Pricing policies that may be common in the industry, with particular emphasis on cash and quantity discounts that may be granted various customers.

9. Leasing agreements that affect buildings or equipment.

10. Nature of competition as it affects the volume of working capital that must be allocated to advertising and sales promotion.

11. Owner compensation that affects working capital requirements.

E. Minimization of risks.

1. Developing a comprehensive and functional accounting system that is subject to standard auditing procedures of a professional accountant or accounting firm.

2. Securing a working relationship with an experienced representative of a commercial lending institution.

3. Relying upon the services of an attorney or legal firm in order to gain optimum advantage in contractual agreements, patent searches and rights, and labor relations.

4. Acquiring a program of insurance protection which includes product liability protection, mortgage cancellation provisions, required workmen's compensation coverage, voluntary health and accident protection, and life insurance on the owner and principal management personnel.

Section IV -- Production

Guide Statement

The primary focus of the small industrial business is production. Basic considerations in the production activities include analysis of the manufacturing processes to be performed; special demands of the equipment to be used; determinants of quality standards; layout of the factory; coordination of production flow; requirements for managing materials and supplies, works-in-process, and finished product inventories; and the types of plant maintenance required. When these are coordinated with an adequate program of personnel administration, the result is effective utilization of man-and-machine-power in manufacturing efficiently and economically products of desired characteristics.

A. Manufacturing activities to be performed.

1. Assembly line production of standardized units.

2. Custom or job-lot production of units that conform to prescribed specifications of purchasers.

3. Combination of assembly line and job-lot production.

B. Special demands of equipment or processes to be used.

1. Specificity for location because of the physical size of some types of equipment.

2. Variations in production that result from continuous, as contrasted with intermittent, operations.

3. Environmental controls that may be essential to operate various types of equipment.

4. Time factor requirements that are involved in completing multiple processing.

5. Safety factors that may be involved in the use of certain types of equipment.

6. Security considerations that might be required, such as when defense contracts are involved.

C. Determinants of quality standards.

1. Cost considerations that are correlated with the demands of the market.

2. Competitive factors that have a direct bearing on pricing and the market position of the product.

3. Nature and intended use of the product as exemplified by a precision part manufactured for use in an airplane engine.

4. Procedures or processes of production that range from a totally handcrafted output to a completely automated machine installation.

D. Layout of the factory.

1. Straight-line movement of materials toward the completed product phaze without major overlapping or rerouting.

2. Process or functional movement that is necessitated by specifications of products made to order.

E. Coordination of production flow.

1. Routing that answers the questions of how, where, and by whom manufacturing operations are to be done.

2. Scheduling that answers the question of when each manufacturing step is to take place.

3. Dispatching that involves the issuance of orders to perform specific tasks at specific times.

4. Inspection that pertains to the performance of manufacturing activities in such efficient ways that predetermined quality standards are met.

F. Requirements for managing materials and supplies, works-in-process, and finished product inventories.

1. Thorough analysis of the nature of the firm's operations as it affects decisions regarding quantities and frequency of purchases and the volume of materials to be available at all times.

2. Clearly stated procurement policies that outline the scope of and procedures for maintaining adequate stocks of materials and supplies.

3. Provisions for storage that include shelving, bins, cabinets, and more sophisticated facilities as required by the kinds of materials and supplies that are to be kept in inventory.

4. Formal system of inventory control that after allocating needed space and facilities enables ease of identification, accessibility, and security of materials and supplies.

5. Scheduling that as a coordinate of production flow regulates the volume of works-in-process at all times.

6. Inclusion of accounting procedures in the formal inventory control system that provides analytical records of additions to and deductions from stock as products are completed and shipments are made.

G. Types of plant maintenance to be performed.

1. Routine preventive maintenance that involves systematic inspection, cleaning, lubrication, and replacement of worn parts of facilities or equipment before a breakdown or production stoppage occurs.

2. Remedial maintenance that is corrective and involves repair of improperly functioning equipment and facilities.

3. Housekeeping that involves orderly custodial upkeep of buildings and grounds.

Section V -- Marketing

Guide Statement

The establishment of a small industrial business is generally the action response to a predictable demand for a known product. At the outset, then, marketing considerations are more or less incidental. The principal marketing problem involves only the maintenance of continued good communication between the small industrial firm and the larger counterpart(s) to which it supplies products. Customer orientation, analysis of demand, and the establishment of competitive price policies are accomplished even before production is begun. Without overt effort on its part, the marketing concept is implemented in the small industrial business, almost without the cognizance of the management.

In the instances where predictable demands for products are unknown, or when the market objectives of the small industrial firm are expanded beyond the original limits, it becomes necessary for management to consider in depth the determination of selling, sales promotion, and advertising policies that are to be followed. At the same time, there must be genuine and direct concern about the type of functional marketing organization that is required to implement the desired policies. Whether the company establishes its own marketing department or uses the services of specialized marketing organizations, a well-developed, coordinated, functional marketing effort must be brought to bear on the accomplishment of the firm's objectives.

A. Relation of demand in marketing.

1. A known demand serves as an economic inciter that when properly analyzed, provides the goals toward which the business may aspire.

2. An existing or predictable demand serves as the base for developing the internal organization of the business.

3. Changes in the demand potential may require expansion or cut-backs or innovation in the direction of a new product(s).

4. Demand constitutes this stimulus for determination of choice of channels of distribution.

5. The demand serves as an indicator of the optimum price that will maximize sales at the minimum cost per unit produced.

B. The marketing concept and its implementation in the business.

1. Recognition of the marketing concept as involving a total philosophy of business management.

2. Basing management decisions on the foci of customers' demands.

3. Producing for anticipated demand and selling in order to stimulate increased long-range demand.

4. Coordinating internal and external efforts so as to create a unified and consistent impact on the market and the diverse publics of the firm.

C. Organization for a functional marketing or distributive effort.

1. Integrated division or department that through coordinated sales, advertising, and sales promotion efforts implements the planned marketing policies of the business.

2. Selling agents group that assumes the functions of marketing whenever it is not economically feasible to have an internal marketing unit.

3. Combination involving company-employed marketing staff personnel whose function it is to coordinate or to direct the activities of manufacturers' representatives.

D. Factors essential in the marketing mix.

1. Product planning that determines design and quality and answers the questions to whom, when, where, and how many units can be sold.

2. Pricing that answers the questions of how much the market can reasonably be expected to pay for the product and what is the margin that can be expected to produce necessary profits.

3. Identification of the product through a branding policy that is based on empirical evidence of the image that the product is to reflect.

4. Selection of the channels of distribution that provide the most economically feasible method of distributing the firm's product.

5. Development of a sales program that, whether it is an internal organization or involves the services of specialized external marketing organizations, will result in the maximization of personal contact with customers and prospective customers.

6. Adoption of an advertising policy that, within the scope of economic practicability, enables the firm to maximize its product's exposure to the market.

7. Selection of a sales promotion policy that involves the use of coordinated packaging, visual merchandising, direct written communications, and public relations, and that when correlated with sales and advertising enables the firm to create and maintain its role in the market.

8. Creation of a service policy that delineates the scope of the firm's service operations that will be required to maintain and repair company products.

9. Determination of policies of transportation and warehousing that will result in minimal handling of the firm's products.

10. Systematic and continuous marketing research that will enable management to stay abreast with the changes that occur in the market.

E. Market pressures that delimit the scope of the firm's market mix.

1. Individual customers' attitudes and purchasing habits with which the marketer must conform.

2. Common practices within the industry that dictate adherence to certain routines and traditions.

3. Competitive practices with which the firm must contend.

4. Local, state, and federal legislation that establish controls to which the business is subjected.

Section VI -- Location

Guide Statement

The location of a small industrial business is more complex than is apparent to most beginners in this specialized field of business endeavor. Without realizing the consequences of it, most owners of such business organizations make a one-time decision regarding location. The choice of location dictates the environment in which the business must learn to exist. Since the business is a product of its environment, locational considerations and decisions are vitally important.

Granted, the specific manufacturing activities dictate to a considerable degree the choice of location within the confines of an industrial area. However, careful consideration should be given to such factors as resources, markets, transportation, communication, community services, and costs of living and operating within the community. Each of these relates to the choice of region, community, and site within the community.

A. Nature of production activities and their impact on location.

1. Manufacturing and processing organizations that supply fabricator and assembly firms strive to locate in the proximity of their customers' locations.

2. Fabrication and assembly organizations that involve heavy manufacturing strive to locate near or adjacent to transportation facilities and where large plant installations are available.

3. Fabrication and assembly organizations that involve light manufacturing strive to locate near their markets since transportation requirements are less restrictive.

B. Effect of resources on the choice of location of small industrial firms.

1. Financial resources that may be secured from community agencies or friendly bankers.

2. Human resources that provide the necessary supply of labor.

3. Resources of raw materials and supplies that must be available in the area.

4. Energy resources that might be required because of the nature of the manufacturing processes involved.

5. Water resources that might be required because of the nature of the manufacturing processes involved.

6. Presence of allied industries that serve as suppliers of the small industrial business.

7. Environmental or climatic factors that might be involved or be essential to the operation.

C. Market factors involved in the selection of location of small industrial organizations.

1. Accessibility to customers that might be required as a result of the size of the product, the nature of the product, or similar considerations.

2. Costs involved in market coverage by the sales organization.

3. Span of market area that might range from very broad to very consolidated.

4. Complementary industries that through association or use of scraps and by-products enhance the firm's market position.

D. Transportation and communication factors that affect choice of locations for small industrial firms.

1. Availability of facilities that includes highway express or motor freight lines, railroads, and airlines.

for conveyance of materials and supplies to the site of the firm and for movement of finished products to the markets.

2. Desirability of available facilities that include public carriers such as buses, taxis, limousines, and airlines, and the proximity of parking for private automobiles for the use of employees and customers in getting to and returning from the site of the small industrial business.

3. Extensiveness of communication media, such as newspapers, radio and television stations, and telegraph and telephone service, that enable management, customers, and employees to keep informed about needed data and current events.

E. Community factors that affect locational choice of small industrial organizations.

1. Service of city government that, based on an equitable tax program, include adequate water, sewage, streets, parks and recreation, and police and fire protection.

2. Business and professional organizations that include full-service financial institutions, modern health and medical institutions, and adequate retail and service enterprises.

3. Social and cultural opportunities that are derived from schools and institutions of higher learning, libraries, fine arts organizations, religious groups, and civic service clubs.

4. Sources of materials and operational supplies that are available in the area.

5. Business promotion organizations within the community that may provide financial support in launching the enterprise.

Section VII -- Expansion

Guide Statement

The basic functions of a small industrial business are the same as those of larger business firms. Significant size differences demonstrate more the magnitude and scope of the problems to be solved than the existence of variations in the basic functions to be performed. It is significant that only through the expansion of some small industrial business can a large industrial complex become a reality. But the expansion of a small industrial business into something bigger or different is wise only if it leads to greater profits.

Planned growth is an important aspect of the operation of a business enterprise. It is one of the by-products of the successful achievement of profit projections. As revamped goals, based on past experiences and future expectations, are established, planning for the expansion of production becomes more or less routine. Involved in expansion activities are the determination of sources and the procurement of additional financing, changes in production facilities and equipment, realignment of marketing capabilities, and the selection and training of additional personnel. Expansion, in a very real sense, requires the re-creation of the manufacturing enterprise function-by-function to a new predetermined degree of performance. An efficient kind of expansion is evidenced only if the result is a higher level of profit over a relatively long period.

A. Motives for expansion of the small industrial business parallel and enlarge those that prompted the establishment of the business initially.

1. Desire to engage in more independent action and to have a stronger position in the industry than has been possible previously.

2. Desire to enhance status and prestige as a growth manufacturer.

3. Desire for increased profits that must result from the enlarged scope of operations.

4. Desire to add to community and national growth by strengthening the economic environment in which the individual and society may enjoy more prosperity.

B. Methods whereby small industrial business organizations are expanded.

1. Through gradual growth that results from the reinvestment of earnings in the business.

2. By diversification of the product line that may involve a shift in emphasis from one industry to another.

3. Through a merger of two or more small industrial firms that as one organization can expect long-lasting increments in net earnings.

C. Methods of financing expansion of the small industrial firm.

1. Reinvestment of earnings in the business is the least costly, maybe slowest, but perhaps safest way of expanding.

2. Acquiring one or more partners who will invest in the business.

3. Sales of stock to persons who are willing to invest in the corporation.

4. Borrowing money from a bank or other commercial lending agency.

5. Borrowing from the Small Business Administration whenever funds cannot be secured from commercial lending institutions.

CHAPTER V

ANCILLARY UNDERSTANDINGS DRAWN FROM SPECIFIC CASES

The material presented in Chapter IV constitutes the most vital and important information in this research report. In the preparation of it, the best techniques of the generalization process were utilized in developing from the case reports, the broad philosophy, the guide statements, and the seven-section course outline of the management of small businesses. The approach was such that certain ideas had to be omitted because they did not contribute to the general kind of applicability. It is with these relatively important, but more specific, ideas that this chapter is concerned.

Both individually and in groups, the case study reports in this investigation contribute to a broadening of the view of the management of small industrial businesses. Drawing upon the individual case information, the ancillary understandings may be considered as subordinate or auxiliary ideas. They remain, however, relatively important if one is to develop full comprehension of the management of small industrial businesses.

While the understandings presented here are subordinate and sometimes even fragmentary, they do, in effect, constitute an extension of the philosophy, guide statements, and outline previously presented. For this reason, the ancillary understandings drawn from specific cases and all of the cases in general are handled here under the same seven headings used in the guide to instruction.

Nature of the Business

There is evidence of "cohesiveness" among some small industrial businesses as they are united informally in principles, relationships, and interests. These relationships and common interests are naturally promoted when the employee in one firm strikes out on his own to form a similar business enterprise. The resultant organization is one that provides a new type of industrial capability rather than a duplicate of the kind of operation in which the employee gained the experience required to become the owner of his own business. The characteristic of cohesiveness tends to be demonstrated by certain small industrial businessmen as they freely exchange ideas and help one another in many small ways. They exhibit pride in how well former employees are doing in their own businesses.

Financial limitations of the owners dictate that many small industrial firms start as part-time operations. Until their own firms have gained sufficient sales volume to enable them to discontinue other earning activity, some owners continue full-time employment in other industrial organizations.

This is another factor that, in part, leads to the cohesiveness present among these firms.

The owners of small industrial firms exhibit the characteristic of independence. They do so when they actively oppose the unionization of their personnel. Some are strongly anti-union because they believe it is solely their right to direct and control the operations of their own businesses. That is one of the reasons they went into business for themselves in the first place. Employees of small industrial firms are highly mobile. Just as soon as many of them have been trained by the owners of small industrial businesses, they leave to seek higher paying jobs in larger organizations.

It is significant that some enterprisers spend a great deal of their time in training activities that are necessitated by a high personnel turnover rate. However, the role of employer-trainer is one that is enjoyed and personally rewarding to the owners of small industrial firms. Perhaps this attitude is indicative of one of the secrets of their success as owners and managers of such businesses.

In general, small manufacturing firms serve the industrial needs of a geographic area. In Oklahoma City, for example, until recently these firms have been concentrated within the oil industry. Today, however, there are increasing numbers of small firms that manufacture parts and equipment for the communications, aviation, and electronics industries. Variety, rather than concentration, then is characteristic of the pattern for the development of these new kinds of small enterprises.

Several observations may be made about the organizational forms characteristic of these businesses. The corporate form is used most extensively. In some instances, multiple corporate entities exist for the purpose of securing legitimate tax savings. Each firm operates as essentially one organization even though two or more "paper corporations are involved legally. Most of the businesses were not incorporated until they had operated for some time as sole proprietorships or partnerships or both.

Least prevalent is the partnership form, apparently because of the inability or unwillingness of the owner-personality to share his dreams or his limited capital and because of the inherent advantages of the corporation for limiting risks. There is usually no doubt that the corporate form is the most desirable because of its versatility for accommodating growth, change of ownership, and long-term continuity of the business.

In summary, an informal "cohesiveness" exists among small industrial firms. Many of them start as part-time operations because of financial necessity. Owners reveal much independence in their anti-union attitudes. Employees are mobile in seeking "greener pastures" shortly after having been trained in the small industrial organization. Owners, consequently, must be effective trainers. The corporate form of organization predominates in these kinds of businesses.

Characteristics of the Owners

Owners of small industrial businesses exhibit a wide range of formal education. Many of them have not had extensive formal education but are motivated by an intense urge to achieve success through the use of innate abilities and qualities. They attempt to compensate for their lack of education not by seeking more of it, but by proving their capabilities by actually running a successful business operation that may employ one or more college graduates. When talking about their personnel, they evidence pride in having employees with earned degrees. While they would be willing to spend some time in additional educational endeavors, it was obvious that the materials to be covered would have to have definite practical utility and would have to be presented within short spans of time. They distrust the educational campus environment because they are unfamiliar with it. Moreover, they perceive better within themselves those things that are mechanical and possess form. Ideas and philosophical discourse are of little interest to most of them. As a representative of a university community, the author had to overcome a defensive and secretive attitude in those respondents who had had little previous contact with academia. On the contrary, however, those businessmen who had attended college appeared more willing to respond to questions and were better able to articulate the problems which they had faced and the solutions that had been chosen.

Few of the owners of such businesses came from middle or upper socio-economic backgrounds. Most of them were reared in humble circumstances in which they learned the necessity and dignity of hard work.

A quality of patience was apparent in these men. They were willing to work diligently over long periods of time in order to accomplish their goals of business ownership. Memories of experiences that occurred to them during the great depression of the 1930's weigh heavily on the minds of most of the older of these businessmen. Their attitude toward the use of borrowed capital is one of constraint.

The owners of small industrial firms recognize their own limitations and are willing to admit their existence. As a result, they seek regularly the counsel of specialists on whom they can rely when difficult management decisions are pressing. They usually have three key advisors on whom they rely heavily--their bankers, their attorneys, and their accountants.

Wealth acquisition is not the main goal of the owners of small industrial businesses. Rather, it is a by-product to the successful accomplishment of their goal to operate their own businesses.

In summary, owners of small industrial organizations have a broad range of formal education. However, those who have not had much formal education seem motivated by their lack of it. They possess qualities of patience and persistence, and they work hard because their backgrounds have taught them the dignity of work. Their fear of indebtedness is so great that loans are avoided at practically any cost. They know themselves--their strengths and weaknesses; and therefore they rely on the advice of trusted financial, business, and legal counselors. Acquisition of wealth is a secondary goal to them since their principal motive is to own and to operate small industrial businesses.

Finance

Initial investments in small industrial businesses are ordinarily derived from the limited personal savings of their owners. Commercial lending institutions will not, as a rule, loan money to small businesses except for a maximum of a 36-month repayment schedule. Long-term financing is seldom available unless the lender assumes an equity in and perhaps control of the enterprise. As a result of the unavailability of "reasonably unrestricted" long-term financing, many small businesses are really "non-failure" enterprises rather than successful, progressive companies with extensive growth expectations. To illustrate, one company involved in this study underwent a change in ownership of the majority stock in the corporation. The reported reason was that substantial increases in working capital could be secured in no other way. Through retention of earnings, small industrial businesses have their safest, surest, but unfortunately, slowest method of financing growth.

It is a customary practice for owners of small industrial firms to receive limited personal compensation in order that as much money as possible be retained in the businesses. In some instances, they actually take home less money than some of their employees. This is a practice that prevails at the beginning of a firm's existence and sometimes for many years after its organization. Only after their businesses have attained substantial net worth and accumulated retained earnings are most businessmen willing to withdraw sizeable amounts of money for their own personal accounts. When they do this, it is usually upon the advice of their tax accountants and at a time when legitimate personal and business tax-saving advantages may be realized.

Very often when a firm is incorporated, the property on which it is located is owned by the president. He leases the property to the corporation. The practice prevails because it results in tax-saving advantages; and in addition, the owner, as an individual, can secure a long-term real estate loan much more easily than could his small corporation.

Accounting systems used in these businesses have been developed by qualified accounting or certified public accounting firms. The availability of adequate fiscal records is considered to be absolutely essential. Most owners of such firms have close at hand the most recent annual report as well as the latest monthly summary reports. Moreover, although they are not, as a rule, trained in accounting, they do have a working knowledge of how to read and to interpret the fiscal reports.

Liability insurance protection is considered to be an absolute necessity by the owners of small manufacturing businesses. Case 1 presents a striking example of the possible consequences confronting a beginning business should, when it is needed, liability protection prove to be inadequate.

In summary, the owners' meager savings generally comprise the initial investments used to organize new small industrial firms. Retained earnings are relied upon to provide badly needed working capital or to finance expansion. Personal compensation of owners is sometimes limited to minimum subsistence in order that as much money as possible can be retained in the business. Record-keeping systems used by these firms have been developed by professionals; however, owners of small industrial businesses have mastered the interpretation of accounting reports. Adequate liability insurance coverage is an essential protection for small industrial firms because they do not have sufficient capital to cover the risks inherent in manufactured products.

Production

Small industrial businesses are generally operated by individuals who, possessing mechanical aptitude, tend to devote much of their time to the aspects of production. They experience pleasure from engaging in manufacturing that is, to them, an act of creation. These firms commonly manufacture precision products that require the best in craftsmanship. Yet, they typically employ personnel who possess only general skills, if any, other than a willingness to work. Their owners have much pride in the quality of products manufactured by their production personnel. An atmosphere of quality control permeates the operations because the owners work in close proximity to all of their employees. As the businesses grow, quality control inspectors are usually appointed to maintain a continued adherence to the policy of consistent quality production. Work-station, rather than assembly-line, production is practiced because of the necessity of operating under a generalist, rather than a specialist, concept of production. Employees move from station to station to perform essential tasks at each state of manufacturing.

Production equipment used in these firms ranges from hand units to precision automated machine tools. Such equipment when new is to its owner a prized possession. Owners take good care of and provide routine preventive maintenance on their equipment because it is more than the means by which production operates. It is, itself, highly regarded.

It is not uncommon to find both custom and proprietary lines being produced by small industrial firms. Some firms begin by producing custom units that are manufactured according to purchasers' specification and then gradually develop proprietary lines as a means of overcoming total market dependence on a principal customer organization. Proprietary lines are sometimes covered by mechanical patents that provide the small industrial organization a competitive advantage in the market place. Owners of these firms strive to develop products for which patents may be obtained.

Procurement practices generally are "hand-to-mouth" rather than being based on forward purchasing procedures or, much less, on speculative purchasing. Working capital limitations dictate this practice. Generally, supply sources are located within the area of the business in order that prompt delivery of needed materials and supplies might be assured. Recent increases in the prices of copper, molybdenum, and cadmium have caused some firms to accept substitutes or to change finished product specifications.

In summary, production tends to be the "pet" concern of owners of small industrial businesses because of their interest in and aptitude for mechanical things. Products manufactured by these businesses generally meet rigid quality tests even though they have been made by personnel who typically are not specialists. The development of a proprietary line of patented products is likely to occur after a small industrial organization has served for an extended period of time as a manufacturer of custom products. "Hand-to-mouth" purchasing practices generally prevail because working capital limitations prohibit forward or speculative purchasing. Local sources of supply are relied upon.

Marketing

Two distinct patterns of marketing practices are prevalent in small industrial firms. The first is apparent in the organization that is so oriented to production that little thought of marketing occurs until storage space for finished products is filled or until working capital seems suddenly to have disappeared. Indicative of the second type is the organization which is self-described as a "selling" organization. There is little variation other than between these two extremes. A proper balance between production and marketing, of course, must be developed if the business is to prosper.

Many small industrial firms rely on manufacturers' representatives to market their production. However, the use of agents generally occurs only after the owner, personally, is unable to continue to generate enough sales volume to enable the organization to maintain constant production. A company-employed sales force is not developed until the market served is adequately informed about the product line or unless sales maintenance and expansion can be achieved more economically than by the continued use of manufacturer's representatives.

There is a basic generalization that can be made about almost any business and that is equally applicable to most small industrial enterprises. It is: "A business is either growing or it is getting smaller; no business can stand still." Most owners of small industrial firms are aware of this and seek market growth through increased sales. However, it must not be assumed that increased sales volume only for the sake of increasing sales volume is of itself desirable. Successful businessmen strive to make certain that opportunities for profitable growth justify any expansion undertaken.

There is an increasing awareness among owners and managers of small industrial firms of the opportunities that exist in exporting. They seem to realize that the development of an international marketing capability might be the best way to gain a "low-cost" expansion of their operations. Visits to foreign countries are being made by owners and managers of such firms to enable them to observe for themselves the opportunities that have been reported to exist.

Advertising and sales promotion activities by small industrial firms are usually limited because of cost considerations, the technical nature of the product, and the general attitude of owners that they are not effective. Direct contacts by owners and sales representatives and word-of-mouth testimonials from satisfied customers are thought to be more efficient and economical ways of promoting sales. On-the-premises, duplicated printing of the catalogs and sales promotion literature is somewhat common. Such literature contains technical, very often wordy, information that is intended to be functional rather than attractive in appearance. Advertising agency personnel are seldom involved in the preparation of such printed materials because they are believed not to possess adequate knowledge about the industrial products manufactured by these firms.

In summary, the marketing practices of these firms range from one extreme where the organizations utilize "afterthought" efforts of selling necessary in order to recover working capital to the other extreme where the firms utilize intensive selling efforts at all times and are self-described as "selling" organizations. Frequently, owners perform the sales functions just as long as possible; then, manufacturers' representatives are given the opportunity to market their companies' products. The organization of a company sales force occurs as a third-stage development in such small industrial firms. Owners of small industrial firms actively seek to expand the sizes of their operations through profitable increases in total sales. Basic changes are occurring in the climate of small industrial businesses as these firms are expanding their markets through exporting and as new firms are organized that provide more varied manufacturing capabilities.

Location

The desirability of a small industrial firm's location depends very much on where it is in relation to its market and its sources of supply. It is sometimes very difficult to establish a functional and economical marketing effort when a firm is located a great distance from its market. Also, for those businesses that manufacture products that are atypical to a region, supply sources are somewhat removed, thereby resulting in certain inconveniences that involve transportation costs and prompt deliveries of needed raw materials. More capital must be allocated for raw materials and supply inventories than otherwise would be necessary if the firms were located nearer to their sources of supply. When this situation prevails, precise procurement planning is absolutely essential or else production activities will be stymied and delivery commitments will be impossible to meet.

When an industry in an area begins to decline, it affects radically the value of that area as the location of the firms that serve that industry. One of the few advantages that might accrue to a business that is located in such an area is that there will be an increase in the availability of skilled personnel who might be available or who, with slight retaining at a modest cost, could become efficient production employees.

In an area that is just beginning to develop extensive industrial activity, there is a limitation in the manpower pool of trained personnel. As a result, small industrial businesses either have to train their own workers or resort to the practice of "pirating" skilled craftsmen from nearby companies. Pirating of production personnel reveals the independence of the owners of small industrial businesses in spite of the cohesiveness that tends to exist among such organizations. It is a practice that inflates wage scales for qualified or skilled personnel.

Site location considerations of importance to small industrial firms include transportation services; streets, highways, expressways, and railroads accessible to and from the business; and the availability of additional space for expansion of physical facilities if the volume of business should warrant it. Railroad sidings are essential to the firms that operate in "heavy industry."

Properties of small industrial firms are either owned outright by the business or personally by the owners. Leasing is less common among small manufacturers than among other kinds of businesses. Owners of small industrial businesses have access, as individuals, to long-term real estate loans whereas, such loans are not easily acquired by the firms themselves. Tax advantages may also be realized when the property is held in the name of the owner and not by the business itself. Property cost considerations appear to have been given more attention in the decisions to purchase than in the analyses of the strengths and weaknesses of the locations in terms of the overall needs of the businesses. Such things as being located in areas designated for expressway right-of-way and eminent domain can force untimely and expensive relocation of small industrial firms. Although the value of industrial property in most areas has increased fairly consistently over the years, recent trends in real estate management (zoning laws, urban renewal, etc.) furnish evidence that more concern needs to be given to the basics of locational choice.

In summary, the value of a location is relative since the needs of a business change as the enterprise grows. Locational choice, or the absence of it, is a significant factor for a business that is unique in an area because supply sources are not readily available. Ready accessibility of transportation services is of importance in the determination of the value of a location. Owners of small industrial business firms need to consider more than cost alone when selecting locations. A good location, which has been chosen because it has flexibility to meet the changing needs of an operation, can be a significant factor in the growth of the enterprise.

Expansion

Resulting as a natural consequence of growth, expansion quite often involves a change in location of the small industrial enterprise. For many young firms, it means an initial move from a back-yard garage to a somewhat larger, second-hand facility that is located in a low-cost, sometimes older residential or rural area in which limited industrial activity is developing. Following the first move and after several years of systematic growth, the business will probably be relocated again. At that time, it may occupy a spacious modern, or even new, plant that has been architecturally "tailored" to meet the needs of a progressively managed, growing industrial organization. Expansion may involve the acquisition of new or additional used equipment that not only increases production capability but also furnishes pleasure for the owner and production personnel.

Initially, expansion is a result of necessity because the space in the original facility, due to increasing business tempo, becomes inadequate for continued efficiency in production operations. Production needs are the only ones recognized by management as a justification for the enlargement of space or the acquisition of different facilities. A limited office area is seldom considered to be a reason for acquiring additional space. These firms generally acquire additional equipment gradually, over long periods of time. Therefore, production, storage, and office areas become congested, perhaps as much from the need for space for additional equipment as from the increasing quantities of products that are being manufactured.

Another type of expansion that is identifiable among small industrial enterprises is that involving diversification of the product line. Through diversification, small businesses can derive a wider operational base that affords increased sales volume opportunities as well as more independence and freedom of action. External diversification requires considerable planning by management because it has a far-reaching impact on every facet of company activity and capability. On the other hand, internal diversification involves the addition of new proprietary products that might free somewhat the small industrial organization's dependence upon a limited number of customers.

In summary, expansion is properly conceived as the direct incident of growth and not as its synonym. To the point of diminishing returns, a business may enjoy market growth without expanding anything but units produced. Facilities are generally expanded in three stages. It is in the third stage that the business amasses substantial financial reserves that are available for the development of the operation's first facility that has been exclusively designed to meet its needs. Product line diversification provides the small industrial organization a broad basis under which less dependent and restricted operations may be developed.

Summary

These ancillary understandings provide owners of small industrial businesses important elements of knowledge upon which management decisions may be based. They are important; yet, they may not be readily apparent as a part of the course content guide. Nonetheless, they are present; and they give owners of these kinds of firms a "sixth sense" of business awareness, a "feel" for the environment in which their organizations operate, and an insight about the stages of development through which such enterprises progress. Beginning businessmen will find them helpful because they can avoid having to learn some of the lessons that experience normally teaches; thereby, saving them time, money, confusion, frustration, and possible embarrassment. When these understandings are coordinated with the concepts inherent in the course content guide, owners of small industrial firms have access to knowledge that will enable them to manage their businesses rather than their operations managing them.

CHAPTER VI

SUMMARY

From the development of the small business perspective presented in Chapter II and from the data accumulated in the case studies, it is apparent that small industrial businesses perform a vital function in the economic and social order. For some persons, such firms constitute the realization of their goals of business ownership and management. Vast numbers of other people find in these kinds of businesses opportunities to work and, thereby, to become useful and contributing members of society.

The economic and social history of this nation has been markedly affected, both directly and indirectly, by the development and progressive growth of businesses that were begun as small businesses. It is from such operations that "big business" has evolved. In those states that want to enjoy economic growth, it seems imperative that small industrial firms be organized and efficiently operated in order that the kind of healthy economic growth sought can be realized.

Restatement of the Problem

The problem of this study was to develop a comprehensive outline of the content for a course in the management of small industrial businesses.

This study consisted of three major phases: (1) a comprehensive study and analysis of literature relative to the heritage, changing patterns, and preparation for ownership and management of small industrial enterprises; (2) the accumulation of in-depth case study data and information by means of plant visit observations and personal interviews with owners and managers of 15 representative small industrial firms in the metropolitan area of Oklahoma City; and (3) a presentation of the philosophy of administration of a small industrial business, a basic outline or guide to instruction in the management of small industrial businesses, and the ancillary understandings drawn from the case studies which are pertinent to the management of small industrial businesses.

This study has dealt with such operational factors as the nature of the business, characteristics of the owners, finance, production, marketing, location, and expansion. With reference to these considerations, the views of the owners and managers were varied and sometimes divergent. Yet, in each of the case studies there were observed consistencies and patterns of thought indicative of (1) certain essentials on which operation of a small industrial business should be based, (2) fundamental elements in the management of such business firms, and (3) ancillary understandings that are of concern to management. The esentials formed the basis of the philosophical statements regarding the administration of small industrial business. The fundamental elements comprised the content of the course outline. Finally, the ancillary understandings supplemented and augmented the concepts gained from the fundamental elements described in the guide statements and course content outline.

From the beginning, the major objective of this study was to prepare a course content guide of the elements essential in the operation of small industrial business. Therefore, it was obvious that numerous and detailed findings would not be developed in the body of this research report. The content guide and the ancillary understandings presented in Chapters IV and V are the counterparts to findings, and they represent the accomplishment of the objective of this study.

Recommended Applications of the Content Guide and the Ancillary Understandings

The applications of the the course content guide and ancillary understandings drawn from the cases may be as varied as are the circumstances that surround the owners and managers of small industrial businesses who seek to learn more about the establishment and operation of such firms. There are numerous ways whereby the guide and ancillary understandings may be used. The examples presented here are merely illustrative of some of the uses.

Effective use of these materials may be made by instructors who conduct special courses for present or future owners and managers of small industrial businesses. The guide is compiled so that specific instructional segments may be developed by its utilization as lecture of chalkboard notes, for projection on slides, or for use in overhead projections. An individual item in the guide or an ancillary understanding may be developed as a topic of discussion among course participants or for an explanation or interpretation by the instructor.

The guide may be used in the regular programs of a school of business in courses in accounting, business administration, finance, management, marketing, and related subject areas as well. It can be especially valuable in an introduction to business course, that serves to acquaint the students with the varied aspects of business ownership and operation. In addition, the case studies themselves constitute valuable source materials that can be used either for classroom presentation or for supplementary reading. They should introduce the students, especially those with no previous contact or experience with small industrial firms, to an understanding of their nature, philosophy of administration, methods of operation, and the different principles and practices characteristic only of such businesses. Some aspects of the case studies, the course content guide, and the ancillary understandings could serve as supplementary or discussion topics in management seminars held for college students and/or owners and managers with special interests in industrial management to acquaint them with differing practices in operating small industrial enterprises.

The guide may also be used by business instructors, administrators, and agencies such as the Small Business Administration, to evaluate current small industrial business instructional programs in terms of contemporary practices and attitudes apparent in and expressed by owners and managers of these kinds of businesses.

Whatever the purpose of its use may be, the basic intent of the course content guide is to present a methodical approach to a unique type of information that was obtained from observations in and interviews with owners and managers directly involved in the operation of small industrial firms.

Conclusions

The extensive background study required and the exhaustive work done in developing and interpreting the case study reports enabled the writer to formulate three major conclusions.

1. The knowledges, understandings, and competencies essential to successful management of a small industrial business are complex, and continuous careful evaluation and

constant reorganization of subject matter content is required to insure that the changing educational needs of owners and managers of such businesses are adequately met.

2. Because of the non-academic and pro-utilitarian attitudes of most owners and managers of small industrial businesses toward instruction, it is essential that new imaginative and vital ways of imparting management information and knowledge be developed. The special course of short duration is but one way whereby such information can be communicated.

3. The philosophical statement, the course content guide, and the ancillary understandings presented in this study are indicative of the nature of small industrial business administration and should be utilized in the future as guide lines for the extension and improvement of this important phase of the preparation of individuals to be more effective as owners and managers of these kinds of businesses.

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APPENDIX

CASE 1

Nature of the Business

This business manufactures a specialized line of products used in the oil industry. It is the parent company of two other close-family corporations. The multiple-corporate structure is used to secure legitimate tax advantages. However, this company is essentially one entity; and, hereafter, reference will be made to the company as one operation even though legal organizational differences exist.

Manufacturing was begun in the mid-1930's. Annual sales now approximate $500,000. The product line is used widely throughout the oil industry; consequently, the customer list is extensive. Marketing involves the use of manufacturer's representatives who sell to and through better-known oil field supply houses.

Fiscal operations may be summarized as follows: Accounts receivable, $50,000; raw materials inventory, $60,000; finished goods inventory, $100,000; total assets, $300,000; and liabilities, $30,000. Most of the liabilities are in accounts payable with the balance in accrued taxes and commissions payable. No long-term obligations exist. Capital stock issued is $100,000. Surplus stock is $80,000, and in addition, there are retained earnings of $75,000.

The administrative unit consists of the president, vice president, office manager, accountant, and two shipping clerks. Production personnel include a superintendent and 12 full-time operative employees. During periods of peak seasonal activity, part-time employees are used. Sales personnel include a salaried-plus-commission salesman for Oklahoma and 14 manufacturer's representatives who cover the continental United States, Mexico, and Canada. Two of the representatives also handle export sales. The number of full-time employees exceeds 20 at all times, and occasionally as many as 35 individuals are employed.

Physical facilities of the business include the principal production plants that are housed in two buildings containing 9,200 square feet in a mid-central Oklahoma community and in a combined warehouse, office, and production building in

Oklahoma City that contains 28,600 square feet. Office space occupies approximately 5,400 square feet of the Oklahoma City facility. The president owns the Oklahoma City real estate that is leased to the corporation. Production plant facilities are owned by one of the "paper" corporations.

Extensive welding equipment is used in company operations. Other types of equipment include heavy-duty sewing machines, cable and belt cutters, steam-cleaning equipment, metal saws, drills, and lathes, belt sanders, industrial ovens, scales, grinders, and assorted hand tools. Dollies, scooters, and a pickup truck are used in daily transportation of finished goods from the subsidiary corporation to the Oklahoma City location from which all sales shipments are made. Office machines and equipment in use are functional but conservative. The initial cost of furnishings and equipment exceeded $60,000, and all items are owned by the corporation. Automobiles are furnished for the president, the office manager (a trusted and valued long-term employee), and the salaried salesman.

Employees are nonunion, a situation that the management forcefully works to maintain. There have been several attempts to organize a union in recent years; however, it is believed that above-average salaries and other fringe benefits provided employees eliminated or at least forestalled any desire to organize. Fringe benefits include hospitalization and life insurance, a monthly bonus of one per cent of net sales, paid vacations, vacation and Christmas bonuses, and company parties. The firm has no retirement plan.

This is a financially successful company that has enjoyed a steady and stable growth from its beginning. In spite of deteriorating conditions in the oil industry, the corporation has continued to grow because it has diversified its product line. Recently, mechanical patents have been granted a new product that will enable the corporation to expand its operation into another industry.

Characteristics of the Owner

The president and founder of the corporation was graduated from high school during the mid-1920's. He attended college for one year. He believes that his lack of more formal education has been a real handicap. However, in the opinion of the interviewer, this man has been motivated by his lack of more formal education.

His early work experiences included lumber sales and oil field labor. He conceived the idea for the prototype product while working as a "roughneck." In 1939, a mechanical patent was sought and received. Shortly after securing the patent, he set up part-time production operations in his backyard garage. As soon as he was able to complete several items, he would canvass the Oklahoma City oil fields to sell them. All earnings were invested in additional production. At that time, he continued to hold full-time employment in the oil fields. After operating on a part-time basis for several months, a major oil field supply firm sought the right to distribute his product through its outlets. The franchise was granted, and he accepted employment with the supply firm as a salesman. After that time and until the end of World War II, production activities were handled by members of his family.

During the war, the founder served as a civilian instructor with a branch of the armed services. Then, after the war, he entered into his venture on a full-time basis. The greatest challenge that he faced was keeping production abreast of the pent-up demand that existed at that time.

Reinvested earnings constituted the basis of financing company growth. Only on one or two occasions was borrowed capital ever used. The president said:

> I experienced the trying times of the depression of the 1930's. As a result, I have always been conservative. Nothing would give me more anguish then the thought that I had a big bank note to repay. . . I have always recognized my limitations. As a result, I have always been pretty certain about a new product before turning it loose on the market. . . I have stayed small on purpose.

Finance

Starting capital consisted of meager savings derived from earnings as an oil field laborer. Expenditures have been carefully and consistently kept within the scope of available funds. Through the years, every spare dollar has been reinvested in the production of additional items to sell.

At the outset of the venture, the founder personally kept the financial ledger, prepared invoices, made collections, and handled bank deposits. An auditor prepared the year-end financial statements and tax reports. After approximately three years, a full-time bookkeeper was employed. The auditor instructed the bookkeeper in developing the accounting system used by the organization. As a result, no major problems have been encountered.

Losses from bad debts have been remarkably low. The reason, the president emphasized, is that the firm has customarily sold to large, well-known oil field supply firms that pay their bills. In recent years, however, with increasing competition in the oil industry, some marginal accounts have been accepted. While a few of these have proved undesirable, no real problem exists because losses from bad debts remain under one per cent.

Compensation of the president has been on a salary basis ever since he entered the business full-time. Before that time, he received no compensation from the operation. He received income as a full-time employee of the oil field supply firm for which he worked and as a civilian instructor for the army during World War II.

In recent years, some surplus earnings have been distributed to the stockholders in order to permit diversification of their financial portfolios. This action has been taken so that the corporation and its stockholders can utilize legitimate tax advantages.

Approximately 10 years ago, the company was involved in a lawsuit that alleged product negligence. At that time, the firm held no product liability insurance. Even though the jury held for the defendant, the total cost of the defense was $40,000. According to the president, had the suit occurred earlier in the company's development, the business would have been "wiped out." The president spent 29 days in court defending his company's position. He reported, "it was a hard and costly lesson." He stressed his belief that manufacturers of products with moving parts have a real need for product liability insurance. Since acquiring insurance protection, two additional lawsuits have been brought against the firm. Adequate liability coverage made it possible for the company to defend itself without having to assume the costs of the litigations.

Production

Production activities in this company involve jig, modified assembly line, and custom manufacturing. While there is some specialization involved in the operation of the modified assembly line, a generalist concept of production prevails. The president maintains that each man needs to know how to do almost everything that is to be done in the plant. He also believes that he, himself, must know every job, from pushing a broom to operating precision equipment.

Management problems in production are limited because the superintendent of production is a capable individual, and most of the personnel are long-time employees. Some minor problems are anticipated as the firm's new product line is developed. The new product design will be basically the same as the design in the present lines; however, the application and use of the product will be quite different. As a result, production procedures will have to be changed. There is some concern about the willingness of the older production employees to accept the changes involved in manufacturing the new product.

Inventory control is always a problem in this business because the company maintains a stock of items in supply houses in each of the major oil fields. Sales reports from the supply houses are usually received several weeks or even a month after the sales have been made. Consequently, inventory control, though essentially a marketing problem, has a major impact on production scheduling. The president believes that the company's procurement practices have eased the always pressing problem of inventory control. Accurate sales forecasts have permitted the company to issue blanket (open-end) purchase orders for raw materials. Shipments are received quarterly, and quantities can be adjusted upward or downward as conditions dictate. Works-in-process and finished product inventories can also be adjusted as needed.

Marketing

This businessman is very interested in the sales operations of his company. Perhaps his awareness of the importance of the selling function stems from his previous experiences as a salesman. For several years after entering the business full-time, he made all of the sales contacts. When the job became too big for him, he hired a salaried-plus-commission sales representative to cover the state. Manufacturer's representatives were authorized to promote the company's sales outside of the state. However, problems have been encountered in the selection, training, and retention of capable representatives. Turnover has been high in certain areas, and considerable time and expense are required to train new representatives. Fortunately, several of the company's representatives have sold its products for over 20 years.

Until recently, little advertising had been used by this company. It was reported, "The trouble with advertising is that if you run a quarter-page advertisement, your competitor runs a one-half page advertisement, then you run a full-page advertisement. Where do you stop?" In spite of the president's attitude, it is expected that additional advertising will be necessary in the future. The introduction of the new product line will require extensive promotion because the firm will be entering a new industry. It is not intended that the company's entry into the new industry will be as gradual as was its growth in the oil industry. Furthermore, it is realized that business conditions are much different today from those of the seller's market which followed World War II.

Sales promotion efforts are not used extensively but those that are used are carefully chosen. The management of this company believes that sales promotion literature should help inform prospective customers about the technical qualities of the products. Most purchasing agents want to know what the products can do. They do not like to read non-technical, meaningless statements. This firm's catalog and product description literature are very technical.

Marketing research activities are subjective and informal. The president relies on several sources of data on which he bases his intuitive sales forecasts. He reads very carefully the industry publications to which he subscribes. He also keeps in close contact with his dealers and suppliers, and he analyzes sales records and reports furnished by his manufacturer's representatives. He is proud of his ability to develop realistic sales forecasts; history has proved them to be quite accurate.

The firm faces a persistent problem in securing timely reports of sales through oil field supply houses. Were it not for its strong financial position, this problem could be devastating.

Location

This business was organized at a time when the mid-continent "oil play" was booming. Its location was most desirable as long as the boom was sustained. However, in recent years the location has been less desirable because exploration activity in the area has been limited. The president is grateful that his firm's product line has become well-known throughout the oil industry. Even though the location is not so desirable as it once was, it, nevertheless, is a strategic one from the marketing standpoint since it is in the center of the continent.

The company has had no real supply problems because of its location. Except for the principal raw materials, most supplies are readily available within the Oklahoma City area. Overnight shipment of secondary supplies is normal.

Because of the loyalty and the ability of the production superintendent, there have been no major difficulties encountered as a result of the firm's having separate locations for major production activities and for light production, storage, and office functions in the parent facility. Frequent contacts among administrative personnel, both in person and via telephone, have resulted in timely management decisions.

Headquartered in an area of Oklahoma City where several oil field supply outlets and manufacturers are located, this company has ample room for expansion. However, it is not expected that additional space will be needed for several years because the building that was constructed five years ago is large enough to accommodate expanded operations.

Expansion

For a period of two years, the president and the vice president have been engaged in the development of a new line of products for use in the electric utility industry. The new products have been patented in order that the firm may gain a competitive market advantage. The product line has been diversified because of the deteriorating conditions in the oil industry. The president believes that the electric utility industry will continue to grow for many years to come, and he wants his company to participate in its growth.

Officials of large national electric utility companies have been contacted by the president and the vice president to determine the extent of demand for the company's new products. Within a short period of time, additional manufacturer's representatives will be employed to promote the new product line.

Summary of Management Problems

1. Nature of the Business.--When this company was organized, there was a pent-up demand for its products. Its industry was at the apex of development, and it was difficult to maintain production that was adequate to meet the demand.

In recent years, however, the industry has declined steadily, and this firm has had to add related products to its line in order to maintain desired growth.

Realizing that the potential for continued growth in the oil industry is limited, the management has decided to diversify the company's product line. The new product line will serve the needs of another industry.

2. Characteristics of the Owner.--The founder of this business did not have extensive formal education, and he considers his lack of it to be a major handicap. It is the interviewer's conviction that his lack of formal education has been a major incentive for his achievements.

His experiences during the depression of the 1930's taught him to be very cautious in fiscal management. His fear of indebtedness has prevented his use of borrowed capital.

3. Finance.--Although funds were quite limited in the beginning, the founder managed to keep expenditures within available resources. For almost five years, he took no personal compensation from the business. In order to be able to leave all earnings in the business, he continued to hold full-time employment elsewhere.

The need for adequate product liability insurance was demonstrated to the president by his encounter with a costly and time-consuming lawsuit.

Recognizing his own limitations, the president has sought counsel from specialists. When establishing an accounting system, he sought the professional assistance of a certified public accountant. As a result, no major problems have been encountered.

4. Production.--The major production problem faced by this business involves inventory control. It is essentially a marketing problem but it causes constant production scheduling difficulties. Until basic changes are made in reporting sales, this will continue to be a problem. However, the effects of this problem are minimized because the financial strength of the corporation permits it to use open-end procurement.

5. Marketing.--Marketing has always been a chief concern of the president. Marketing of products out of the state is handled by manufacturer's representatives. Whenever manufacturer's representatives are used, there is always a possibility that the firm's product line will not receive adequate attention or emphasis.

Although the company has, through product diversification, realized a continuing but declining rate of growth within the oil industry, it has been necessary to intensify marketing efforts. The salaried-plus-commission salesman was hired to aid in the marketing intensification efforts in the firm's home state.

The president can see no competitive advantage to be realized from the use of more extensive advertising and sales promotion within the oil industry. However, he realizes that considerable advertising will be needed to promote the new product line.

6. Location.--The location was an excellent one during the period when the business was first organized. During that time, the local market was "booming." Consequently, the firm was able to gain a sound financial base before the boom period ended. However, as oil exploration and the industry in general, in the locale, began to diminish, the firm's location lost some of its advantages.

No major problems have resulted from having separate locations for major production activities and for small parts production, warehousing, and central office functions. The apparent reasons are that the plant superintendent is a capable and loyal individual and that there have been frequent daily communications among management personnel.

7. Expansion.--The company is presently attempting to expand its activities into another industry. A new product line has been developed and patent rights have been secured. The development of a marketing program is considered to be of major importance at this time. The president has reservations about using manufacturer's representatives in marketing this new line because he desires more control over sales activities than he has had in the past. However, cost considerations may necessitate the use of agents.

Another cause of concern resulting from planned expansion is the reluctance of older employees to accept changes in production procedures. It is believed that this problem can be overcome by proper planning and by education of the production employees who need to know the reasons for adding the new product lines.

CASE 2

Nature of the Business

This is a manufacturer of a limited line of products that are useful in a basic service industry. Originally the organization was a family partnership. It now operates as a close-family corporation.

Begun as a jobbing organization in the late 1940's, manufacturing activities were started in 1950. Annual sales exceed $650,000. Sixteen jobbing organizations constitute the major market for the corporation's products. The customer list has grown from a state to regional and now is essentially a national list that includes a few businesses that are located in foreign countries. Orders from the jobbing organizations constitute actual sales for the company since title passes to the jobber upon shipment of the units. Virtually all sales are negotiated by the company president or secretary-treasurer. No salesmen are employed by the corporation.

Fiscal operations can be summarized as follows: accounts receivable, $70,000; raw materials inventory, $9,000; finished products inventory is negligible since units are shipped as soon as completed; total assets, $400,000; and liabilities, $45,000. Approximately $15,000 of the liabilities are short term and the balance are long term. Capital stock issued is valued at $28,000. Surplus and retained earnings equal $40,000.

In the administrative unit are the president, vice president, secretary-treasurer, office secretary, and a part-time stenographer/file clerk. Production employees include a plant foreman, two machinists, seven welders, two electricians, one general mechanic, one painter, and eight sheet metal workers. The number of employees averages twenty-five. The president spends most of his time working with fiscal activities whereas his son, the corporation secretary-treasurer, is primarily responsible for product design, production, and sales. The company vice president is the president's wife. In recent years she has become inactive in the daily affairs of the business.

Physical facilities of the corporation contain 27,000 square feet; approximately 3,000 square feet are used for storage; 700 square feet, for offices; and 23,000 square feet, for production. The property is owned by the corporation.

Essentially a sheet metal fabrication operation, production facilities include welding apparatus, assorted lathes, shears, press brakes, polishing machines, grinders, overhead lifts, and hand tools. Extensive painting equipment includes large industrial spraying and drying units. Office furnishings are conservative or functional. Office machines are limited to the types found in most small offices that do not have automated equipment. All equipment and furnishings are owned by the corporation.

Employees of the corporation do not belong to any union. It is management's desire that the nonunion status be retained. An attempt to organize the production employees was made early in the life of the company. However, the union was defeated. One of the company founders reported that the organization activities occurred at a time when everyone concerned was doing everything he could "just to make a going concern of the business." He said:

> We could not have possibly survived had the vote been in favor of the union. . . Union representatives do not seem to realize that a company must assure mere survival before consideration can be given to extensive fringe benefits for anyone--management or employees.

Fringe benefits now include annual paid vacations, profit-sharing bonuses, partial payment of hospitalization insurance, and life insurance on key personnel.

This company has had a healthy growth in recent years, whereas growth during the early years was slow but steady. It was reported that a few years ago hundreds of orders were rejected because it would have been necessary to triple company facilities in order to meet the sudden expansion of demand for the corporation's products. The decision not to expand proved sound because the demand was not lasting. Major producers in the industry have lost millions of dollars because of investments in production facilities and because the product is no longer in sharp demand.

Characteristics of the Owners

The corporation president attended college for one year. His son, a co-founder, attended college for three years.

For several years prior to the establishment of the jobbing firm, the family operated a retail service business. It was from their experiences in that business that the idea for the present enterprise was originated. Their acquaintance with the retail service industry and its representatives proved advantageous during the development of a market for their manufactured products. While operating the family jobbing firm and during the first couple of years after beginning manufacturing operations, the father was responsible for the sales and managing the office. The mother staffed the office while her husband was away on sales calls. The son supervised production and installed all units sold.

It was reported that a major problem encountered during those early years of operating a manufacturing business involved the employment and supervision of production personnel. The vice president said:

> We could not afford the best skilled labor. Consequently, we had to spend much time in coaching the employees to know what and how to do their jobs and to want to do a good job.

Help was sought from suppliers' representatives in securing materials and technical knowledge needed for the informal training activities which proved so valuable. The vice president said:

> Whenever we did not know an answer to a question or a problem, we were not afraid or even hesitant to seek help from people within or outside the industry. We found people to be very willing to help when help was requested.

Prospective customers also provided suggestions concerning desired product features.

<u>Finance</u>

An investment of $10,000 that was used to launch this venture came from the sale of the family-owned retail service business. Except for a few months during the early life of the company, working capital has proved adequate. Commissions earned from the jobbing sales added needed working capital. Jobbing activities were not discontinued until 1953. In that year, the company was granted a government contract amounting to $50,000. Revenue from the contract financed the enlargement of much needed production facilities. By the end of the year, company sales totaled $75,000.

One of the first acts of the president after launching the business was to secure the services of a certified public accountant. The accountant established the record-keeping system that, through the years, has proved adequate. The president has always been responsible for accounting and money management. His son gives him much credit for using sound judgment and caution in keeping expenditures within the limits of available funds.

It has been the corporation's traditional policy to sell on C.O.D. terms for one year before granting an open account to a customer. As a result, losses from bad debts have been less than one-half of one per cent. The president uses a "bird-dog" approach in collecting the occasional slow account. "When good psychology rather than threats is used, the slow accounts are usually collected."

The corporation discounts its accounts payable. It has, from the beginning, attempted to take advantage of all discounts granted. However, during the early years it was not always possible to discount all payments.

From the beginning, the president and the secretary-treasurer have been paid on a salary basis. Except for a few troublesome months, compensation has been paid on a regular basis.

This company has never used bank loans or funds from other financial institutions. Virtually all capital has come from the sources mentioned and retained earnings. It has been a standard policy to retain all earnings in the business. However, during recent years, a profit-sharing bonus plan has been used. The president believes that it is better to share with the employees than to pay excessive corporate income taxes. Retained earnings have provided the necessary working capital that is so essential to a growing organization.

It was reported that this corporation has adequate insurance coverage, but claims have been few. Workman's compensation insurance has proved somewhat distasteful to management. It is felt that some individuals have abused the insurance protection.

Production

This organization manufactures products of standard design. A generalist concept prevails because of the small size of the production staff, although clearly defined job assignments allow some degree of specialization. Key production personnel supervise the activities of a crew that is assigned tasks based on the work load. Work stations are used to direct the movement of units from preliminary layout to their completion.

The plant foreman began working for the company when he was seventeen years of age, and he has literally grown up with the organization. Working with the crew chiefs, he maintains close control over the production operations.

During the first years of the corporation's existence, many problems with production control were encountered because of the lack of skilled personnel. Through training of production personnel these problems were overcome. The training sessions dealt with the mechanics of production and proper attitudes toward work. It was reported that as soon as the employees knew how the finished units would be used, both quantity and quality improved.

This company manufactures only upon the basis of orders received, and units are shipped as soon as they are completed. As a consequence, there is no finished products inventory; and management of the raw material and supply inventories entails little more than having adequate stock on hand to handle work in process. In addition, the proximity of major suppliers reduces the size of raw materials inventory needed on hand at any time.

Procurement practices involve the issuance of quantity purchase orders that stipulate that varied shipments are to be made as needed. In earlier years, the company could not take advantage of quantity purchases because of the lack of working capital; however, the use of open and purchase orders has eliminated most of the kinds of problems that were previously encountered.

Marketing

At only one time during the history of the company was a sales representative employed. It was reported that, during the six-month period when the representative was employed, sales costs exceeded $8,000 with little or nothing to show for the money spent. The apparent attitude of the owners is that, if you build a good product and price it competitively, wholesaling organizations will buy it and distribute it.

This company is atypical because it employs no salesmen, nor does it use the services of manufacturer's representatives. All sales efforts are undertaken by the president and the secretary-treasurer who spend much time in telephone conversations with prospective purchasers. The telephone has proved to be this firm's principal sales tool.

Company advertisements have appeared in trade publications for the past ten years. It is believed by management that comparatively low-cost display advertisements in the publications of state trade associations receive much more attention than similar advertisements in high-cost national trade publications. The biggest problem concerning advertising has been to secure the services of an area advertising agency that has personnel who understand the complexities of promoting the sale of the company's product line. Advertising has always been a concern of the secretary-treasurer. It has been necessary for him to prepare most of the advertising copy because of its technical nature. No agency representative has been found who is knowledgeable about this firm's product line. Perhaps this is an insolvable problem for any specialized manufacturer who is located at a distance away from the industrial centers in which technically-oriented advertising agencies are concentrated.

Preparation of the company's sales promotions materials is also a function of the secretary-treasurer. These include several attractive, technically-presented product brochures; loose-leaf catalog inserts; and an occasional direct mail campaign. Exhibits at trade shows are regarded as very important because they provide management opportunity to meet prospective customers and jobbers' representatives and to examine new products offered by competitors.

This company has never used any formal market research studies; but rather, the president and secretary-treasurer attempt to learn of developments in the market as they make frequent telephone contacts with suppliers, jobbers, and prospective customers.

Location

The organization initially served a local and state market and during that time, the location in metropolitan Oklahoma City was functional. As the business has grown and its markets have expanded from a state to a regional and now a national dimension, the location has become unique insomuch as the firm's competitors are located in the industrial areas of the north and east. A favorable market advantage has been gained because of the firm's pricing policy. It was reported that the company's products are competitively priced and that much larger than industry-average discounts are given to jobbers.

Few problems involving the acquisition of needed raw materials have been met. Major suppliers of steel are located in Oklahoma City. Suppliers of component parts and motors have local outlets. Frequent use of the telephone enables management to keep in close touch with suppliers' representatives who provide timely information about changing patterns in the availability and costs of raw materials and supplies.

One of the most frustrating problems which has confronted the management of this company in recent years is the necessity of relocating the business. The firm is presently located in an area adjacent to a facility owned by the city. Planned expansion of the city-owned facility has forced the imminent sale of the corporate real estate. The current location was intended to have provided space for long-term growth and sites for other industrial organizations as well. Another piece of property has been purchased and within a few months the company will be forced to move to the new location. Management has learned a bitter lesson from this experience. Consequently, it has analyzed carefully the property zoning regulations which affect the new location. The owners never again want to be faced with a similar problem.

Motor freight has been used to transport the company's products to jobbers' warehouses or installation sites. Company-owned trucks and commercial motor freight lines have provided the mobility needed to limit to a minimum the amount of handling required in transporting the bulky units from producer to purchaser. Management's conviction is that fast delivery has helped build the business.

Expansion

No major expansion plans are contemplated in the near future. Land acquisition costs are much higher today than they were when the present location was purchased. Any resources which would have been available for expansion purposes have had to be reallocated for use in procuring the site for relocating the enterprise.

Management has endeavored to develop a program which will attract young men into the organization because long-range plans are being developed for the perpetual continuity of the organization. It is intended that the organization will one day be a major factor in its industry.

A principal difficulty faced by the owners of this firm is being able to compete with larger manufacturers in order to retain the younger more promising employees who possess the necessary growth potential to become executives. Several courses of action are being considered. One plan that is likely to be chosen is the inclusion of corporate stock as part of the compensation for such employees.

Summary of Management Problems

1. Nature of the Business.--This business is unique in this area. Its major competitors are located in the industrial areas of the north-eastern states. Of necessity, management has had to educate suppliers and personnel about the needs and intricacies of this type of business.

2. Characteristics of the Owners.--The principal owner of this firm has had the benefit of education beyond secondary school. In addition, he has had considerable work experience in the retail service industry for which this firm manufactures basic equipment. His son, a college graduate, has worked diligently to develop a cohesive internal organization structure which in production, at least, utilizes clearly defined delegation of authority and responsibility.

None of the founders had a broad knowledge of accounting. Therefore, it was necessary to seek outside assistance in developing a functional system of record-keeping and reporting.

3. Finance.--At the beginning of operations and for several months thereafter, the owners had to forego any personal compensation. Personal sacrifice was the only answer to that dilemma.

Working capital has been increased through retention of earnings. Enlargement of the operations has occurred only as adequate funds have become available within the business.

Early in the company's existence there were several union attempts to organize the employees. Management feels that the organization could not have survived had the union been established because of the inability of the company to provide the fringe benefits demanded. As the corporation's financial position has improved, fringe benefits have been provided the employees.

Since none of the incorporators was familiar with accounting, a certified public accountant established the record-keeping system. It has proved to be valuable for maintaining control over fiscal operations.

4. Production.--Because of limited working capital during its infancy, the company for several years could not employ skilled workers. A correlated problem was that there was no supply of capable workers available in the Oklahoma City area. An informal employee training program was developed by management to develop a group of reliable employees.

5. Marketing.--This business does not employ sales representatives. All sales contacts are made by the president or secretary-treasurer. At one time an individual was hired to specialize in sales; however, after costs exceeded $8,000 in a six-month period and there had been little or no improvement in sales, the decision not to develop a sales organization was made. Management has found the telephone to be the company's most effective selling tool.

6. Location.--Recently this company has been confronted with the necessity of relocating its operations. The business owned a large tract of land which was, by right of eminent domain, taken by the city for the expansion of a major municipal facility. Relocation is being accomplished at considerable expense to the business and will limit any possible expansion for some time to come. The owners studied the zoning regulations very carefully before acquiring the property on which the firm will be relocated.

7. Expansion.--During the early years of its operation, the company had an opportunity to expand its facilities in order to participate in a tremendous growth of its industry. Management decided that too rapid expansion was unwise; and therefore, chose to increase only as rapidly as earnings permitted. This proved to be a wise decision. The industry as a whole lost millions of dollars through unplanned expansion because not long afterwards the market demand no longer equalled the industry's production capability.

Management has recently become aware of the need to plan for the perpetual continuity of the organization. The final solution to this problem has not yet been determined.

CASE 3

Nature of the Business

This corporation is a producer of a very specialized line of component parts designed for use in the aviation industry. Begun as a surplus sales operation at the end of World War II, the firm gradually assumed the functions of a manufacturing organization. As surplus parts became scarce, production of new parts was the natural development.

Annual sales now exceed $350,000. The product line is proprietary since specifications are developed by the producer rather than by the purchasing organization. Though sales are made throughout the industry, over 90 per cent of the company's sales are made to six customers.

Fiscal operations may be summarized as follows: accounts receivable, $30,000; raw materials inventory, $28,000; finished goods inventory, $50,000; total assets, $233,000; and liabilities, $54,000, of which $4,000 are short-term. The balance of $50,000 is for a long-term real estate loan. Owners' equity and paid-in surplus exceeds $160,000.

Short-term liabilities are held to a minimum because of the corporation's procurement policy. Suppliers are requested to ship sight draft bill of lading less one per cent.

An average of 34 persons are employed by the corporation. Administrative personnel include the two founders plus an administrative assistant. Four supervisors direct the production activities of two welders, five assemblers, one maintenance man, and fourteen machinists. Two salesmen and three clerical personnel are also employed by the corporation.

Each co-founder heads one of the two divisions of the company. Sales and engineering constitute one division; accounting and production, the other. Production is divided into three departments--machine shop, assembly and central inspection (testing), and shipping.

The corporation has recently moved to a new location. Physical facilities now include five acres of land on which a recently completed building containing 19,000 square feet of space is located. There are 15,500 square feet used for production. One floor of the production area has not yet been used but is available for additional space if growth is realized. The corporation owns the real estate on which the building is located.

Extremely close production tolerances require the use of a variety of measuring devices and inspection equipment. The operation also uses common machine shop facilities, including turret lathes, grinders, mills, sand blasting equipment, heat-and-chemical-treating equipment, and a painting room.

Office furnishings and appliances are adequate but not new. In many ways, the production areas of the operation are more attractively furnished than are the administrative or office areas of the organization. Desks, filing cabinets, and other office appliances appear to have been World War II surplus items.

The corporation operates a nonunion shop. It was reported that no problems have been encountered as a result of organizational attempts. The apparent attitude of management is that an objective evaluation of any organizational attempt would be made. No preconceived negative attitude toward unions exists.

Fringe benefits provided employees include annual ten-day paid vacations, five paid holidays, up to five days paid sick leave, and partially paid (30%) group life and hospitalization insurance. It was also reported that a cost-of-living salary review is conducted every five months. As the cost of living increases, employee compensation is adjusted accordingly. The organization has no retirement plan.

This is a company that has financed its own physical growth. Its new physical plant was constructed by its employees with materials that had been acquired over an extended period of time and much of which was surplus.

Characteristics of the Owners

Though incorporated from the very beginning, the business was organized primarily by two individuals. The president entered the venture with a background in management in the wholesale grocery business and the oil industry. During World War II both he and his younger associate, the vice president, secured five years of experience in the aircraft industry. The present venture is a result of their having worked together during the war.

The president's experience was oriented toward sales and engineering; the vice president's, toward production and accounting. As a result, at the outset the organization was divided into two major divisions. The president heads the sales and engineering division, while the production and controller division is headed by the vice president.

It is believed that the founders' experiences together during World War II proved advantageous in forestalling or eliminating many of the problems which equal owners sometimes encounter, especially during the formative period of a business organization. Authority and responsibility were clearly and carefully divided at the outset of the venture. Attesting to the fact that the organization has functioned effectively is the present division of authority and responsibility. Little, if any, organizational change has ever been made. Of course, as the business has grown, additional personnel have been added to handle the increasing volume of work, yet the organizational arrangement is basically the same as when the company was founded.

Both founders are college graduates. The president's degree is a Bachelor of Arts. The vice president's major in college was business management. In addition, each of the major officers had a background in a family business.

Finance

Knowledge of aircraft parts and equipment and an initial investment of $1,200 enabled the founders to secure some valuable surplus parts and equipment after the end of World War II. When the surplus was sold on the open market, the founders received $25,000 ready cash with which to develop a formal organization.

In 1950, because surplus parts were becoming quite scarce, the company expanded into manufacturing. As the manufacturing operations gradually increased, working capital became inadequate. The capitalization problem was overcome by borrowing against invoices which were attached to short-term (120-day) notes. An established line of credit and a reputation for paying its bills promptly enabled the company to secure the loans. Another factor, that led to the solution of the problem, was the fact that production was large enough to enable the company to make its major purchases just three times a year. Quantity procurement resulted in lower prices paid for raw materials and supplies. The final factor, that enabled the company to overcome its capitalization problem, was the retaining of all earnings in the operation.

The increase, almost overnight, of an initial investment of $1,200 to a handsome sum of $25,000 provides a vivid picture of this company's experience in capitalization during its early expansion.

The accounting system used by the corporation was established by a certified public accountant. The same accountant and auditing firm have worked with the corporation since the business was organized. The company operates from a weekly budget that is based on available cash flow. Corporate books are closed each month, and an audit is made annually.

During the first few years of the firm's existence, sales were made largely because of pent-up demand, and losses from bad debts were quite small. Frequently, payments were received prior to shipping the products that had been sold. By 1950, however, the company had become a captive shop for a major, nationally-known corporation. In that year, the company changed its market objective. This resulted in diminished revenue; therefore, the executives were forced to reduce their own compensations. Reduced overhead and payroll cash output had the effect of spreading the purchasing power of the company's capitalization. The "lean" financial period lasted two and one-half years. Because of the changed market objective, sales were no longer limited to a single purchaser. Today, sales are made to approximately fifteen customer organizations. Six of these are major customers. They are well-known aircraft manufacturers who purchase 90 per cent of the company's output. Each customer pays its obligations promptly. Sales to the six major customers are made on the basis of 1/10, n/30. Sales to the other customers are made C. O. D.

The corporation paid its obligations promptly during the initial years of business activity; however, during the crisis period that resulted following the corporation's move to eliminate its captive shop status, accounts payable management became very tedious. For a period of three or four years, the company was very slow in meeting its obligations. By borrowing to capacity, carefully budgeting cash flow, and providing partial payment of outstanding accounts, the corporation was able to "weather the storm."

It has been the traditional policy of the organization to pay its principal administrative officers a regular salary. Whenever there have been adequate funds, all employees of the corporation have been paid bonuses--all or none. The troublesome period when the marketing effort was being reorganized made it necessary for the president and vice president to live on quite limited salary schedules.

This company has never carried product liability insurance because it is felt that FAA regulations have more or less eliminated the urgency of this type of insurance coverage. Recently, however, management has entertained considerations about adding general product liability coverage.

Production

This company's products are custom-made and are of precision quality. Production is controlled by weekly and monthly schedules that are developed at regular weekly planning meetings. With the exception that volume demands do not permit continuous production runs, few problems are encountered in production scheduling.

Most of the equipment used in production is of a highly specialized nature. It is therefore necessary to have a quality control supervision at all times. A chief inspector and an assistant inspector oversee operations during the two production shifts.

Procurement orders are issued on the basis of production runs. The extent of the need for supplies is determined by departmental supervisors. Purchase orders are authorized by supervisors, although the actual purchasing functions are handled by two administrative personnel. Inventory records are maintained on perpetual stock cards.

Shop orders, which are issued as soon as customer purchase orders are received, provide the supervisors authority to initiate production. Units are manufactured according to specifications prescribed by the purchasers. Shop orders remain with the projects until all work has been completed and the units have been cleared by inspectors for shipment. Production time, parts, and other pertinent data are noted on the shop orders so that cost analyses can be developed and perpetual inventory control effected.

Marketing

This firm relies principally upon its products to sell themselves. It is believed that the product fills a definite need for the customer's engineering department; and that so long as the product is well-crafted and reasonably priced, it will sell itself.

Careful cost analyses have been made in order to be able to price competitively the company's finished products that are sold on a cost-plus basis. Low overhead costs are maintained so that prices can be kept at a minimum.

The sales force operates chiefly in Oklahoma City, but there are two salaried salesmen who represent the corporation nationally. Sales efforts are principally directed toward major aircraft manufacturers.

Except for a short time during the first few months of its existence, this company has not done any advertising. It did so then to promote the sale of its surplus products. As mentioned previously, sales promotion efforts have been limited. The business publishes no catalogue or other printed literature. Company executives feel that the real sales work is done in customers' engineering departments. They rely on personal acquaintances with engineers and the personnel of their customers' engineering departments for most of the contacts that constitute their marketing effort.

Location

The corporation's geographical location is considered excellent because of its proximity to most major aircraft producers. The single exception is the Piper Corporation which is located in Pennsylvania. Not only are the company's principal customers located within a radius of two hundred miles of Oklahoma City, but the Standardization Center of the Federal Aviation Agency, which is a very good customer, is readily available.

This company uses much aluminum, teflon, copper, and brass. No major problems have been met as a result of the unavailability of these materials. Component parts are also readily available.

Production can best be described as an integrated manufacturing operation. Most of the complex detailed parts and assemblies are machined and assembled within the company's own production operations. No subcontracting to local machine shops is undertaken. Because of exacting tolerance requirements, local machine shops are incapable of furnishing the quality of workmanship required for aircraft parts. Local machine shops are best prepared to accommodate the needs of the oil industry. Its tolerance requirements are not so precise as are those of the aircraft industry. The company has no plans for additional branch locations because quality control considerations prohibit them.

This company recently relocated its physical facilities. The value of the real estate that formerly housed the operations had appreciated to a point where it was no longer economically feasible to remain in the older location. The sale of the former facility resulted in a long-term capital gain. The availability of capital gain funds enabled management to purchase a much larger site in a developing industrial area. Five acres of space are available, yet the operations are housed in facilities that occupy one-half acre. It is believed that the newly completed two-story building will accommodate company operations for several years into the future since only one floor is currently being used.

All forms of express transportation are used by this organization. It is strictly a light industry. Seldom are packages shipped that weigh in excess of thirty pounds. It was reported that the company's ability to ship promptly has been very beneficial to the growth of the organization.

Expansion

The president believes the company should expand as rapidly as growth capital and new product opportunities or requirements become available. The company's physical plant was built by employees in such a manner that it is readily adaptable to expansion. Even now, during lax production periods, employees are engaged in building additions to the plant's facilities.

The company has no long-term plans for the continuity of the operation because many years will pass before either of the founders reaches retirement age.

Summary of Management Problems

1. Nature of the Business.--This organization began as a war surplus business. As the supply of war surplus items gradually dwindled, the owners realized that their operation must change its objective in order to survive. The company entered the manufacturing field on earnings derived from surplus sales. By shifting its operations, the company avoided the fate of so many other surplus businesses after World War II.

2. Characteristics of the Owners.--Both the president and vice president had previous experience in the aircraft industry before they entered manufacturing. They gained their experience in World War II. Cognizant of each other's capabilities, the partnership clearly defined and divided authority and responsibilities from the outset of the business, and thus avoided difficulties which frequently arise in equal-owner partnerships.

3. Finance.--Starting capital for the manufacturing venture was gained from the surplus sales

business. The corporation has financed its own physical growth through earnings retention. Early in its existence, the company established credit through short-term loans. Credit proved very helpful when working capital became inadequate after the company entered the manufacturing field.

As a manufacturing enterprise the company became a captive shop of a giant corporation. To break out of this relationship, the operation changed its market objective and sought additional customers. During this transition period, accounts payable management was very difficult; and there was limited compensation for the corporate executives. After two or three years, the company was again on sound financial footing.

The corporation has increased its working capital ratio by taking advantage of quantity discounts. The production of the corporation is large enough to allow savings through quantity procurement. The size of the product affords no inventory problems.

4. Production.--The principal problems encountered in production are inherent within the nature of the operation. Close tolerances require rigid quality control of products. The precision of the work does not allow any subcontracting work to be done. The production volume does not permit continuous operation runs.

5. Marketing.--Sales promotion efforts of the company are extremely limited. Since products are, for the most part, custom-made, the company's marketing effort principally relies upon the product itself and upon personal acquaintances with engineers employed by its customers. Careful analyses of pricing were made to insure that competitively priced products resulted. The interviewer feels that the company could have more business opportunities by utilizing advantages gained through sales promotion literature.

6. Location.--The company recently relocated its operations. The value of the property which the corporation formerly owned appreciated so greatly that it was economically impractical to continue operations there. The plant was sold for a long-term capital gain. The new facilities were planned to accommodate the company for an extended period of time.

7. <u>Expansion</u>.--Present facilities are more than adequate because only one floor of a new, partially completed two-story factory building is occupied. Construction work has been performed by production personnel and is continuing as time permits. Apparently, it will be quite some time before the structure will be finished.

Little or no thought has been given to the long-term continuity of the enterprise. Management's attitude is that plenty of time is still available before such planning must be considered.

CASE 4

Nature of the Business

This company produces a diverse line of equipment that is used in a number of industries and that was developed from a line which previously had been used exclusively in the oil industry. Because of the multiple applications of the product line, the company's clientele is large.

In 1945, this business was organized as a partnership. Then, in June of the next year, the partnership was dissolved and reorganized as a corporation with one of the original partners remaining as the principal stockholder. Today, that individual is still the majority stockholder in the corporation, but he is no longer active in the firm's management.

The fiscal position of the company may be summarized as follows: accounts receivable, $400,000; works-in-process and raw materials inventories, $400,000; finished goods inventory, $600,000; tangible fixed assets, $1,000,000 (less accumulated depreciation of $400,000); and short-term liabilities, $200,000. No long-term liabilities exist. Annual sales approximate $4 million. Common stock issued totals $111,000 and retained earnings are $1,450,000.

Approximately 140 persons are employed by this company. Their jobs or functions are clearly identifiable on the formal organization chart. Three are administrative officers: the president, who is inactive; the secretary-treasurer, who is the chief administrative officer (general manager); and the vice president, who is in charge of production. A staff of 24 clerical employees man the administrative division and are responsible for accounting, data processing, personnel, procurement, and warehousing functions. The sales division includes 40 salaried salesmen and commission representatives. Activities of the remaining 76 employees who are involved in the production division of the business include drafting, engineering, quality control, tool and die production, plating, welding, and final assembly. Maintenance is another function of production, inasmuch as production laborers also serve as maintenance men.

Physical facilities of the company include 40,000 square feet of production area, 16,000 square feet for warehousing, and 6,000 square feet of office space. The property has been owned by the corporation since the business was incorporated. Manufacturing facilities include extensive fabrication equipment such as hydraulic presses, turret lathes, power grinders, and engine lathes. Welding equipment is used throughout the operation. Semi-automatic painting apparatus and automatic drying ovens are some of the more "sophisticated" equipment used by the company. Company offices are attractively and functionally furnished.

The employees of this organization are nonunion. Several attempts to organize the employees have been made. At a quite recent election, the workers rejected the union's bid for organization. Employees' fringe benefits include hospitalization insurance, for which the employee pays only a modest cost for coverage with life, sickness and accident provisions. Other fringe benefits available to employees are paid holidays; up to three weeks paid vacation after fifteen years of continuous employment; leaves of absence for illness, non-job injury, or military service; and overtime pay for working more than 40 hours in any week. Management feels that the program of fringe benefits offered employees is a clearly defined policy that promotes good employee relations. An attractive, copyrighted employee handbook is provided each employee as part of his initial training. Rules contained in it have been developed after careful consideration of the needs of the company and its personnel.

Characteristics of the Owners

The principal stockholder in this business is an individual who has had a long and successful career in business. He launched this venture after having retired from another business. Not only did he invest the most money in the organization, but he also held patent rights to a product that this business manufactures. He has never been very active in the daily affairs of this business; but rather, his role has been that of financier.

A biographical sketch of the chief administrative officer identifies him as an individual who was one of nine children of a farm family, who was graduated from high school prior to serving four and one-half years in the army and who, after completing a program of study in a private business school in 1947, joined this organization as a bookkeeper. He proved to be an unusually able employee.

When, in 1950, he was elevated to the post of general manager, two of the original incorporators sold their stock to the majority shareholder. A reorganization followed and he was provided a compensation plan that has, over the years, enabled him to acquire stock in the company. Since his appointment, the firm has grown tremendously. He has worked diligently and has succeeded in building a progressive industrial organization that is on the threshold of becoming a major business in the area.

Another long-time employee was named production vice president in 1961. During his tenure, he has made substantial contributions to the rapidly expanding production operations. Although several people have held executive positions in the company, the general manager/secretary-treasurer has been chiefly responsible for the growth of this organization.

The general manager believes that his knowledge of accounting has been most helpful to him in his present position. However, he feels that his lack of background in engineering has been a definite limitation even though he has an "above-average layman's knowledge of mechanical concepts." At times he feels a lack of the maturity which seasoned businessmen demonstrate in their dealings with others. He has very few personal or professional affiliations because the business is his life, his hobby, his everything.

Finance

When the company was organized in 1945, the senior partner invested $25,000 that he had obtained from the sale of former business interests. He continued to provide needed working capital until 1949 when corporate earnings became adequate to finance planned expansion. Because of its strong financial backing, the company has never had any financial difficulties; so loans from banking or financial institutions have never been used.

Until the present general manager joined the organization, the company had great difficulty in developing efficient accounting systems for financial, inventory, and production control. His skill in solving these persistent problems was instrumental in his rapid rise in the management hierarchy. He indicated that he developed a double entry system which, based on standard accounting principles, proved functional. As the firm grew, machine accounting equipment was acquired to handle the increasing volume of work, but even then, it was not necessary to make major changes in the systems. More recently, however, a computer has been obtained in order to provide the firm with more advanced capability to retain, retrieve, and analyze records.

Budget and forecasting are presently of an informal nature; however, attempts are being made to develop the capabilities to establish overall formal budgets insomuch as certain portions of the organization presently operate on a budget. Sales forecasts are developed by the sales staff and are evaluated by the administrative personnel. The evaluation is principally subjective intuition and is based on past experience. Management realizes that more impirical information is needed.

The company has had no problems with accounts payable because it takes advantage of all discounts that are offered. Accounts receivable have also caused few problems, although they have been watched closely. Although the company is willing to gamble somewhat with accounts receivable, losses due to bad debts equal only about one-half of one per cent and therefore are not significant.

Key personnel of this firm receive compensation on an incentive basis and since 1956 have worked under a profit-sharing plan. A supplemental stock purchase option is available to the general manager and the production vice president.

<u>Production</u>

Production is by job-lot with the major problems resulting from scheduling, i.e., producing the desired items by the time needed. The company has formulated a production control department to remedy this difficulty. This department routinely prepares a record of shop capabilities in order that production demands may be met.

The problem of the development of a proper inventory accounting system was previously aggravated during periods of peak production when the company often faced shortages of material caused by suppliers' inability to meet production requirements. Procurement and inventory control are now centralized through computerization. As a deterrent to supply shortages, the company is willing to carry more inventory than is necessary in order that raw material supply be more than adequate to meet production demands.

Difficulties with finished goods inventory control have been similar to those encountered in procurement. The data processing system has also enabled management to reduce these problems considerably, although recently it has become apparent that further refinements of the system will be needed. Quality control, which is a function of the engineering department, is supervised by skilled quality control inspectors who are headed by a graduate engineer.

Stores management causes no concern because warehouse stocks are maintained at eight leased sites strategically located throughout the country. Transportation is provided principally by motor freight lines and, on occasion, by air or rail freight.

Marketing

Initially the company used manufacturers' representatives, who functioned under the general supervision of a sales manager, to market its products. Not long ago the company began replacing some of the manufacturers' representatives with salaried salesmen because the general manager feels that company salesmen do a better job of presenting the growing product line. In those territories affected, sales have not increased significantly, but management is confident that its decision is warranted. An added responsibility of the company salesman is to supervise the remaining representatives who work within their assigned territories. Company salesmen are located throughout the nation in key centers of the industry.

Advertising, most of which is a regularly budgeted item, is done in trade publications under the direction of the sales manager. The general manager maintains a close contact with the advertising program because according to him, "agencies are not competent to prepare advertising copy, thus all materials are produced by the company." Catalog preparation is a function of the engineering department because management believes that it is a technical digest of information about the firm's line. Advertising personnel do not have the know-how to produce such a technical document.

No formal marketing research is carried on by the organization, but the company's personnel are well acquainted with other representatives in the industry and have the benefit of their views to amplify their own. Pricing policy affords no difficulties. One price is quoted for all customers; however, being continually mindful of cost considerations, the company attempts to establish competitive prices.

Location

The company is well located in its principal market area, the mid-continent region. Its principal suppliers and competitors are located nearby. The site of physical operations is in the midst of competing and allied companies that serve the same industry. One of the desirable features concerning the location is the available manpower pool of trained workers. Unfortunately, land for long-term growth must be secured at a price premium because the area is already congested.

The gradual decline of its industry locally has proved somewhat advantageous to this company because of an abundance of well-qualified employees whose jobs elsewhere have been greatly curtailed or eliminated. Of course, this same situation has had an adverse effect on the company's marketing operations. Fortunately, expanded advertising, sales promotion, and selling efforts have increased the company's sales volume at a time when competitors have been eliminated or have changed their market objectives.

Expansion

Of basic importance to the management of this business are the company's relative liquidity, inventory position and requirements, business trends of the past year and the past five years, and subjective projections of activity within the industry for the next three years. Expansion plans are made only after consideration has been given to the above-mentioned prerequisites.

The company realizes that the life of the oil industry is limited. It feels fortunate to have developed a product line that has multiple applications throughout the industries requiring pipeline transmission of liquids and gasses.

There are no formal plans for the long-term continuity of the business operation; however, the president has named the general manager as a trustee of his estate. The general manager expects to be quite active in the enterprise for many years to come, although he reluctantly admits the necessity of developing executive capabilities within the organization.

Summary of Management Problems

1. Nature of the Business.--This business has been dominated by one individual who is its principal investor but yet who has remained relatively inactive in its internal operation and management. The organization was begun as a partnership with a senior partner and a junior partner. It was later incorporated in order to attract a third member of the management team. That person departed after two years and the original junior partner divested his interests to the principal investor as a result of the appointment of the present general manager.

Like so many other area businesses that serve the oil industry, this organization has faced deteriorating conditions in the local market and the total market as well. It has expanded its operations, however, as a result of diversification of the uses of its product line and as a result of the possession of a patent.

On several occasions, unions have attempted to organize this corporation's employees. However, thus far, workers have rejected the unions' bids. This company has a carefully defined employee relations policy that is based on both the needs of the company and the needs of the employees.

2. Characteristics of the Owners.--In addition to the principal investor whose chief role has been that of financier and chairman of the board, two men have contributed much to the progress and growth of this business. The secretary-treasurer/general manager has been the prime mover and chief motivator of this company's growth. He literally "lives the business." His is the kind of loyalty that investors generally seek but seldom find. He grew up as a member of a large rural family, and after serving in the U. S. Army for four and one-half years during World War II, he attended a private business school to study accounting. His knowledge of accounting enabled him to secure initial employment with the company and ultimately resulted in his appointment to the top administrative post in the organization. He has been named a trustee in the founder's estate and is the heir-apparent to the corporate throne. He fully intends to make the most of the opportunities that have been entrusted to him.

Another individual who has a major role in the growth of the company is the production vice president. He has streamlined the company's productive capabilities to the precision of a fine wrist watch. His grasp of the production functions has enabled the general manager to concentrate more time and attention on fiscal and administrative affairs.

3. Finance.--This business has not had the problems of capitalization that seem to be so typical of small manufacturing enterprises. The principal investor contributed $25,000 initially and for four years underwrote the company's need for additional money. After that, the company sustained itself from retained earnings. It has never used borrowed capital from recognized financial institutions.

Major financial problems have stemmed from the difficulties encountered in the establishment of adequate systems of accounting for the control of financial liquidity, inventory, and production. The beginning manual entry systems gradually gave way to machine accounting systems until, today, automatic data processing systems are used. Data processing system specialists have perfected the systems currently being used.

4. Production.--Production scheduling has proved difficult for the organization. The solution to this problem was the creation of a production control department that has as its chief function, the preparation of a record or log of shop capabilities at any designated time.

The installation of automatic data processing equipment has eased the pressing correlated problems of procurement (raw materials inventory) control and finished goods inventory control. The company is now willing to carry a larger inventory of raw materials in order that production capacity always may exceed production demands. As a result, the finished goods inventory control problems have been decreased.

5. Marketing.--Recently, this company has begun a program of replacing some of its manufacturer's representatives with salaried salesmen. It is believed that salaried salesmen will prove themselves more thorough and diligent in promoting the entire line manufactured by the organization. It is too early to determine the impact this change will have on the business; management, however, is confident its decision is proper. The salaried salesmen are being assigned to key centers of the industry and will have supervisory responsibility over representatives assigned to their territories.

Advertisements in trade publications are presented on a regular basis. Management does not have confidence in any agency's ability to prepare the technical advertisements that are considered necessary. Most of the advertising is prepared under the direction of the sales manager, who collaborates with the general manager. Sales promotion literature, that involves little more than the company catalog, is prepared by the engineering department. In the opinion of the interviewer, the total marketing effort of this company is somewhat fragmentary rather than being a well-organized, cohesive effort involving the total marketing concept.

6. Location--Expansion.--This company, like other oil equipment manufacturers in the area, faces the problem of a declining industry both locally and nationally. Rather than allowing the industry to decline to force its eventual elimination, the company has taken advantage of the increased supply of skilled oil field workers by placing them in jobs in manufacturing. In addition, the company has increased the scope of its market from a state to a national level in order to maintain and to increase its annual sales.

Management recognizes, however, that the oil industry, as known at present, will not last indefinitely. So that limitations inherent in the industry may be overcome, the company has diversified its product line by application and modification of products to meet the needs of other industries which require the transportation of liquids and gasses by pipe line. A regional market is available to the company in the industries producing natural gas, helium, and nitrogen.

The present physical plant is very limited. Any needed expansion in future years must be developed either by costly purchase of surrounding heavy-industry properties or by relocation on a new site. There also remains the narrow possibility of expanding upward by adding new high-rise floors to the present facilities.

CASE 5

Nature of the Business

This manufacturer is a producer of a precision unit that has multiple industrial applications at home and abroad. The business began in the late 1930's as a three-member partnership. Upon the withdrawal of two of the partners, the operation was run for a short time by a sole proprietor. Incorporated in the early 1940's, this business has continued to operate as a close-family corporation.

Annual sales now exceed $1.5 million. The product line has extensive applications in most major industries; consequently, the customer list continues to expand as new applications of the equipment are found. Marketing involves the efforts of a highly trained, company-employed sales force that is charged with the responsibility of educating industrialists about the functions and potential uses of the equipment.

Fiscal operations can be summarized as follows: accounts receivable are $200,000; raw materials inventory is $30,000; finished goods inventory, $6,000; goods in process, $18,000; and total assets are $570,000 (of this amount, current assets are $315,000); and current liabilities, $180,000. There are no long-term obligations. The value placed on capital stock issued is $70,000 and surplus is in excess of $380,000.

The current raw materials, goods in process, and finished goods inventories at first seem low in relation to sales. These data, however, are realistic when one considers that over half of the company's products are custom made.

Executive personnel include the president and four vice presidents, each of whom heads separate administrative, engineering, production, and sales divisions. Next to the president in authority and responsibility is the production vice president, who became associated with the organization very early and who has played a significant role in its growth and development. He owns 10 per cent of the corporate stock and is highly regarded by the corporation founder and president. The production vice president developed the corporate personality essential to good relations with employees and suppliers. This individual is credited with being the detail man, while the president takes credit for being the idea man and promoter.

Eight people constitute the personnel of the administrative division. Headed by the comptroller, this division provides supervision, service, and maintenance of fiscal records essential to the corporation and its customers.

The engineering division is headed by the chief engineer and is staffed by nine individuals. The functions of this division include the development and improvement of product designs. In addition, this division provides all drawings involved in installations, equipment, and the manufacture of parts. It also furnishes technical advice and information to company sales representatives and customers.

The production division has 27 operative personnel. These individuals manufacture and assemble equipment from basic, standard components plus special parts needed for particular applications. Since the company's product is used in multiple installations, a broad but not extensive inventory is essential. The production division also rebuilds and/or modifies used equipment and provides prompt delivery of parts where needed. The procurement functions are also handled by the production division.

Promoting the sale of the company's products are 15 individuals who staff the sales division. Sales offices are located throughout the United States, Canada, and Mexico. Sales and applications of the company's products are made in over 25 foreign countries. The eldest son of the president is the sales vice president, and a younger son is a company sales representative.

Housing the operation is a modern building, with over 26,000 square feet of usable space, that is located in a major industrial section of Oklahoma City. The president owns the property and leases it to the corporation. Recently a 22,800 square feet area, adjacent to the present facilities, was purchased for planned expansion. Office space is very limited at the present time. Remodeling plans provide for relocating the machine tool section in the new area so that the offices can then be expanded into present plant space. Plant property will likely be sold to the corporation within a few years.

Plant operations include the use of standard machine tools and metal-working equipment. One piece of measuring equipment is leased and all other equipment is company-owned.

Machinery and equipment are valued at $120,000, while office furniture and fixtures are valued at $40,000.

The corporation operates a nonunion shop; however, during each of the past three years, attempts have been made to unionize the production personnel. The corporation management is strongly anti-union. It is believed that the company's fringe benefit program has been instrumental in preventing the organization of the employees.

Fringe benefits include a group insurance plan that is made available to each employee after two months of full-time employment with the company. The corporation pays two thirds of the premium. A company-paid pension plan is offered to each employee who became associated with the company prior to his fifty-sixth birthday. An employee becomes eligible for a one-week paid vacation after he has been with the corporation for eight months; and he becomes eligible for a two-weeks paid vacation after completing 20 months' service. Other benefits include paid holidays, sick-leave policy, health inoculations, privilege of bowling with a company team, compensation while serving jury duty, leave of absence for military duty (not charged against vacation), free coffee and sweet rolls at break times, secured parking lot, and complimentary company picnics and parties.

While this organization is now a closely-held family corporation, a public offering of stock is anticipated within a few years.

Characteristics of the Owner

The president and founder of the corporation was graduated from high school prior to 1910. A long list of jobs and promotional ventures are included in his work record. He began working part-time in his father's general store when he was 12 years of age. His job of assembling wagons and buggies enabled him to cultivate an interest in mechanical things. He continued to work part-time for his father until he left home to attend college. After three semesters, he returned home to work in his father's store where he was made manager of a department. When his efforts as department manager met with failure, he was assigned to the bookkeeping section as assistant bookkeeper and held that position for two years.

The period between 1915 and his entering service during World War I was hectic for this man. He held five different jobs. He worked as a shipping clerk in a publishing house, as a stock clerk in a wholesale house, and as a clerk for Western Union. He also managed a mineral water house that failed and served as a shipping clerk for a furniture manufacturer. In still another promotional venture, he failed almost before he got the venture started.

The founder of this business entered service as a private in the U. S. Army during World War I. He completed officer candidate school and was discharged as a lieutenant. For three difficult years after the war, this industrialist was self-employed as an oil-exploration promoter. This business failed because financial backers withdrew the balance of their funds before a well could be completed.

Throughout the remainder of the 1920's, this individual worked as a salesman, sales manager, and/or promoter of real estate subdivisions. His efforts as both an employed salesman and a sales manager met with financial success. The subdivision business proved so lucrative that he launched his own venture but "because of lack of capital could not really compete." He then relocated and accepted employment as sales manager for another subdivision organization. This venture proved catastrophic because he never received any of the money that had been promised him. He reports, "Once again I had been hornswoggled. It seemed that I was always getting sucked into some losing deals."

This industrialist was a state manager of a mortgage-bond business during the early 1930's. "This proved to be no good because people had quit placing money in building and loan associations." After that, he became a student of investment trusts (mutual funds). It was through his activities in the investment-trust business that he acquired the idea for the product that his firm now manufactures.

The president of this company has travelled a long and sometimes uncomfortable trail to business ownership and management. Admittedly, he has always been a chronic optimist, possessed by a dogged will to succeed in his own business. His secret dream was to make and sell something new. Because he considers manufacturing to be a level above his father's general store business, he strives to achieve a higher level of success than did his father.

Finance

Having acquired the idea for the prototype unit, the founder and two friends organized the original partnership. Its purpose was to conduct market-research and mechanical-research activities. The initial investment in the business was $1,500 which was divided equally among the three partners. In addition, the facilities of a small machine shop in which the founder had a half interest were available for use.

Because the initial investment only covered the basic costs of manufacturing the prototype unit, it was necessary to borrow from individuals an additional sum of $1,500 to enable the founder to take the unit to Chicago to have it tested. Favorable test results enabled the founder to secure an order for a unit. Fortunately, the purchaser of the unit was affiliated with a large company that could make an advance payment, thus enabling the founder to make the unit that had been ordered. The firm operated on a hand-to-mouth basis with the founder delivering each completed unit to the prospective customer. He would not return to his place of business until the unit had been sold.

At the outset of World War II, the two partners withdrew, leaving the founder as sole owner of the business. He was then convinced that the product had a big potential, and he was determined to continue the operation. After a few months, the founder authorized a certified public accountant to outline a corporate organization. The corporation was chartered soon afterwards. Some financial help was being received from individuals to whom accounts receivable were pledged. The discount rate was six per cent. At that time, the business was a two-man operation run by the founder and one mechanic.

The president now believes that he would have been better off if he had quit operations for the duration of the war. He spent much time and what little money he had in going to and from Washington, D. C. where he had much difficulty in securing priorities for needed raw materials and supplies. He reported that there were many times when he did not know how he was going to pay his hotel bill or buy his next tank of gasoline.

The business continued to operate on a marginal basis for several years after the war. Though business was improving all the time, the company was always troubled with problems resulting from inadequate working capital. In fact, on two occasions between 1949 and 1953, the payroll could not be met. The founder recalls that "almost anytime an individual or group of individuals agreed to help me, they wanted control of the business. Of course, I steadfastly refused to relinquish control."

In 1953, legislation was passed to permit banks to make loans on pledged receivables. As a result, a local bank discounted the company's accounts receivable for two years. At this point, the founder thought most of his worries were over. In 1955, however, a delay in receiving approval of an accounts receivable discount caused him to seek and establish a business relationship with a different bank. The founder reported that the banking change was the "best thing that ever happened to the corporation." The new banker took a personal interest in the operation. An open account at the new bank amounting to $15,000 was available without pledging receivables. Through counseling, the new banker helped solve the problems of inadequate working capital. Since that time, the corporation has enjoyed a continuous and accelerating growth.

Since 1955, the company has been able to achieve a strong working capital ratio by retaining most of the corporate earnings and by taking advantage of accounts payable discounts. The president believes it is a sound business practice to expand working capital by taking accounts payable discounts. Prior to 1955, however, it was seldom possible to do so.

The president believes that the firm has experienced no major accounting problems because at the time of incorporation he employed a certified public accountant to develop the firm's accounting system. The same accounting firm has continued through the years to prepare tax returns and to audit records for the business.

Another concept of financial management practiced by the corporation involves the compensation of the president, who says that he has never violated the rule of taking too much compensation for himself. From the very beginning, he has paid himself a salary; however, on numerous occasions, he has had to wait for his compensation because no funds were available. Ever since the company has had a favorable profit margin, he has paid himself a regular salary. He has withdrawn retained earnings from the business only one time when he had to in order to buy the property and to build the building which now houses the company's operations.

Production

Over 50 per cent of the company's products are manufactured to the buyer's specifications of size dimensions. Though most production activities involve custom manufacturing, the concept of specialization prevails in this organization. Production personnel are highly-trained, skilled individuals who have clearly-defined job descriptions of the work to be done.

The production vice president schedules and supervises production activities. His skill in directing the production activities has proved vital to the growth and development of the corporation. A quality-control engineer personally supervises the inspection and performance tests of each item produced. Pinpointing or forestalling many production problems is a 100 per cent quality-control inspection policy.

Since most units are sold before being assembled, problems of inventory management are minimal. Material and supply bins are used in inventory management. The production vice president or his two assistants inspect the bins periodically in order to determine what materials or supplies are in need of replenishment.

Procurement practices permit three individuals to initiate purchase requisitions. For local purchases, however, all purchase orders require the approval of the production vice president.

Storage problems are limited to a great extent by the nature of the custom manufacturing. Storage facilities have been designed primarily to handle the broad but limited quantity of raw materials and production supplies.

Marketing

During the difficult years when the operation was quite small, the founder personally sold all units manufactured. He indicated that he had to travel the length and breadth of this land in his efforts to research, finance, and sell the product as well as the potential of the enterprise.

Sales presentations amounted to an educational experience for the prospective purchasers. The product was so new and complex that this company takes credit for being the pioneer in this specialized industry. After the organization expanded beyond a one-man effort, attempts were made to use manufacturers' representatives as the sales force. The plan proved undesirable, however, because of the complexity of the product and the ensuing complexities involved in selling it. The company employed its own sales force and gave extensive training to the sales personnel. Most of the present sales force are graduate engineers. The graduate engineer seems to be able to do a better job than the non-specialized sales representative can do.

Funds for advertising were not available throughout the early years of the firm's existence. The company's first advertisement appeared in a major industrial publication in 1950. Between 1950 and 1961, occasional product-promotion advertisements were placed in selected trade publications. A local advertising agency prepared and placed the advertisements.

In 1961, an advertising department was organized within the sales division and the first coordinated advertising and sales promotion campaign was initiated. The agency continued to place the advertisements; but the advertising department prepared the copy, layout, and design. Activities involving sales promotion have been similar to those of advertising. The company catalog during the early years was little more than a duplicated sheet of technical data.

The catalog was gradually improved, but it was in 1961 that a major effort was made to upgrade its appearance. Also in 1961 other typical sales promotion practices were initiated; direct-mail campaigns were originated; trade displays were made more attractive; and brochures and pertinent literature about special uses of the company's products were developed.

Because the product was new, the president spent much time in conducting an exploratory search for a market during the first two or three years of the firm's existence. The costly search was conducted at a time when money was quite limited. The founder now considers his time well spent, because he learned more from the search than he could have in any other way.

Location

Because of its central location in the continental United States, Oklahoma City is considered to be a good location for the production facilities and corporate headquarters. The market for the company's products is broadly distributed among the industrial areas of the United States, Canada, and Mexico. Sales opportunities exist wherever industrial activity exists.

The costs of extensive travel, essential in promoting a new and unknown product, proved excessive during the early years of the venture. Transportation via motor freight lines has proved consistently dependable. Typically, sales are made in single or small unit lots. Rates for less than carload shipments are not excessive, and service is rapid.

Few problems have been encountered in securing needed manufacturing materials and supplies. Sources of major raw materials exist in several locations in the Midwest. Major parts are standardized and are readily available as prefabricated units; and the company's production methods forestall many problems that might be met were the output not customized.

Plans do not include provision for the development of additional production sites; however, an option to buy up to seven acres of land adjacent to existing and planned structures remains open until 1970. Consequently, during the next few years, room for expansion of present facilities will be available.

Expansion

Prior to 1949, the company operated strictly "hand-to-mouth." By 1949, however, conditions had gradually improved and the founder had secured sufficient funds to rent a small building and to obtain some much used equipment--one lathe, one milling machine, two or three small retail drill presses, and a few hand tools. The founder reported that by that time he had "borrowed between $5,000 and $6,000."

Also in 1949, the production vice president joined the organization. He proved to be a capable manager of the firm's production operations. Thus, the founder was able to turn his complete attention to sales promotion.

Though business was improving, from 1949 to 1953 was a very difficult period for the organization. On two occasions, the payroll could not be met; however, after banks began discounting invoices in 1953 and a new banking connection was made in 1955, the business was again on the upswing. For a decade now, this corporation has enjoyed continuous growth.

Future plans include the establishment of sales offices in West Germany and possibly other common-market countries. Problems being encountered include the establishment of a functional procedure for selling on credit. Letters of credit will likely be essential in credit management of export sales.

Another plan under consideration involves the development of a less costly standardized product to be offered in addition to the custom-manufactured units. The less costly standardized unit would be in direct competition with products of larger and older organizations; therefore, the decision is being considered carefully and thoroughly.

Summary of Management Problems

1. Nature of the Business.--Because the president's personality is indicative of a strong ego, he has difficulty in working with others--both within and outside the company. The production vice president has been essential to the corporation's operation. This individual has been the mediator who

has developed good employee and supplier relations for the company.

The maintenance of a nonunion shop is considered by management to be a major challenge. The development of a program of desirable fringe benefits is considered to have been instrumental in maintaining the nonunion shop.

2. Characteristics of the Owner.--This businessman held many jobs before acquiring ownership of this business. Most of his jobs involved selling; yet, he was not satisfied to stay in sales work. He could not be satisfied in any other way than by operating successfully as a manufacturer. His secret ambition was to attain a status above that accomplished by his father who was a merchant. He was middle aged before his ambition was realized.

3. Finance.--The acquisition of adequate risk capital without loss of control of the enterprise is considered to be the most overwhelming problem met. Sheer persistence and much personal sacrifice on the part of the founder are considered to be of major importance in the solution of this almost overwhelming problem. The favorable relationship with the company's present banker has enabled the operation to gain a sound financial base.

4. Production.--The newness of the product and the lack of adequate finance created difficulties in securing competent production personnel.

The need for an able production manager plagued the business for several years. After the present production vice president joined the organization, the frequent absences of the founder were no longer so disruptive. Moreover, the founder was more free psychologically and physically to concentrate his attention on expansion of the market.

5. Marketing.--The company's product was new and its uses were complex. Education of the market in the product's potential applications demanded the development of a highly specialized sales force. This necessitated extensive and costly in-service training of sales representatives, who typically are graduate engineers.

A problem that has been met recently involves the development of an international marketing program.

Management realizes that the company's products have significant potential in world markets. The research and development of markets abroad are demanding constant attention.

6. Location.--The operation being located in Oklahoma City at a great distance from the company's market necessitated extensive travel on the part of the corporate founder at a time when funds were limited and when his physical absence from the business was a substantial management cost to the company. As the business has grown and prospered, the central location has proved to be advantageous.

7. Expansion.--Of current interest to management is the question whether the company should develop a standardized line of products that will compete directly with products made by well-known major American manufacturers. Extensive research is being conducted to determine the feasibility of the contemplated expansion.

CASE 6

Nature of the Business

This company is a manufacturer of wooden and metal window and door screens and a line of storm doors and windows. It was organized as a sole proprietorship in 1938 by an impoverished, crippled man who was 65 years old. He had formerly owned a retail lumber business that, because of a relocation in a different section of the city at the outset of the depression, was completely liquidated at total loss. While in the lumber business, he had had great difficulty in securing odd-sized screens; therefore, he recognized the need for that type of custom production. Out of necessity and with an investment of less than $500, he established the present company in the area where he had been successful earlier. Because of his personal acquaintance with persons in the building industry and because he operated strictly "hand-to-mouth," he was gradually able to expand the business. He remained active in the business until his death in 1950. Presently, the company is operated as a partnership between the founder's widow and his son-in-law who is general manager. Seven-eights of the business has been acquired by the general manager. He will receive the balance of the ownership after his mother-in-law's death.

Although the company produces both wood and metal screens, a high percentage of total sales volume is derived from the sale of the wooden products. The company operates in a 375-mile radius of Oklahoma City. It sells to 12 major jobbers, 125 of 700 lumber yards in Oklahoma, and a large number of retail customers.

Fiscal operations of the company include: accounts receivable, $33,000; total inventory, $60,000; tangible fixed assets, $20,000; short-term liabilities, varies from $10,000 to $18,000; long-term liabilities, $10,000; and owner's equity, $125,000. Short-term liabilities vary according to the fluctuations in delivery schedules of suppliers.

Business is seasonal and an increased number of employees is needed during the summer months. The average number of employees is 21, plus seven summer employees. The summer employees are usually high school boys. Production employees are supervised by a foreman and are assigned specific functions, although there is some flexibility in the operations. Five men are assigned to mechanical production devices, two to wire work, two to assembly, and three to metal work. During the peak of seasonal activity, each of the functional units is expanded by one or two men. Procurement, sales, and clerical work are handled by the general manager and his assistant.

This firm is located on the same property on which the founder's original retail lumber business was located. Its physical facilities are owned by the partners and are rented to the partnership. The founder's widow owns two thirds of the property, valued at $25,000; the son-in-law owns the remaining third, valued at $18,500. Space available to the operation totals 18,500 square feet. Of this, 7,000 square feet are used for storage; 600 square feet, for office and display area; and 10,900 square feet, for production.

Two types of production equipment are needed in this operation because procedures and techniques vary greatly between wood working and metal fabrication. When working with lumber, the following kinds of equipment are needed: rip saws, boring machines, assembly tables, sanding and profile equipment, and wire presses. Necessary equipment for fabricating includes metal saws and metal boring machines.

This firm has functional office furnishings and equipment, though most of it is very old and was purchased secondhand. The cash register, for example, is a 1916 model. The general manager operates under the basic policy that costs must be kept to a minimum. According to him, "if it won't make our operation more efficient, we can do without it."

A nonunion shop exists in this company. Management believes that it could not operate otherwise. Stated as a reason for this is that its two largest competitors are located in southeastern Texas, where the use of low-paid Latin American laborers is widespread. Thus, the general manager believes that if he is to be able to continue pricing his products competitively, he must be able to keep employee costs to a minimum. Approximately a year ago, an attempt was made to organize the employees, but it was unsuccessful because it occurred late in the peak production season. Two or three of the union agitators had the shortest longevity with the company and were among the first to be discharged as peak business activity began declining.

Full-time employees are guaranteed a forty-hour work week, fifty-two weeks a year. Most employees work forty-eight hour weeks. The company pays half of its workers' medical and hospitalization insurance premiums. Two weeks sick leave with pay is allowed by the company. Any amount of sick leave not used by the individual employee is given him at the end of the calendar year as either an extra bonus or as two weeks paid time-off. Employees are discouraged from taking time off during the summer months when production demands are high.

Within the past year, an addition to the physical plant was completed. According to the general manager, the company is presently "digesting" the expansion and no further expansion plans have been made. Without additional acquisition of property no further expansion could be accomplished since the firm is surrounded. Present plant facilities could be modified by adding another floor for production, if more space were needed.

Characteristics of the Owner

A native of Wisconsin, the general manager moved to Oklahoma with his parents shortly before entering college. He enrolled first at a small state teachers' college and transferred after one year to a state university where he ultimately received the degree of Bachelor of Business Administration, with a major in business administration and a minor in advertising. In 1938, he received from the same institution the Master of Business Administration degree with a major in economics. From 1938 to 1942, he was employed as a salesman by a nationally-known consumer-goods company. In 1942 he entered the army. He served until 1946 when he resigned his commission as a captain. After leaving the service, he accepted employment in his father-in-law's company. Theirs was a close association for five years. When his father-in-law died in 1950, he acquired a half-interest in the prospering business. Then, in 1952, he purchased three-fourths of his mother-in-law's interest, bringing his total interest to seven-eights. For all practical purposes, he has had complete control of the business since 1950.

Among the personal affiliations of this businessman are memberships in the Chamber of Commerce, the Lion's Club, and work with the YMCA's junior baseball league. His business is a member of the Oklahoma City Better Business Bureau.

Finance

Starting capital for the business was quite meager inasmuch as the founder had lost everything when his retail lumber yard in northwest Oklahoma City failed. The new business operated on limited finances for many months after its beginning. It was reported that the founder felt that he had begun this venture at exactly the right time. The pent-up demand following World War II provided excellent opportunity for this firm to acquire financial stability. A seller's market existed for over two years.

Because of his earlier experience in the defunct lumber business, the founder had an obsession about outstanding indebtedness. He requested that every vendor sell to him on C.O.D. terms. This had a desirable effect on the liquidity of the business. However, during periods when supply shortages existed, many problems were encountered because vendors who were not acquainted with the business were naturally cautious in selling to the company since no credit information, other than C.O.D. terms, was available to them. His son-in-law persuaded him to alter his policy in order that a credit rating could be established.

This company has had few known problems involving financial statements. Regular monthly and quarterly profit and loss statements received from an auditing firm have provided adequate management information. In addition, the auditing firm prepares the company's state and federal tax returns. Entries for daily reports are made by the general manager or his assistant. Since the firm has been able to operate without them, formal budgets or forecasts are not prepared. Accounts receivable have not been a cause of business problems because retail lumber businesses since World War II have been relatively stable and have developed a reputation for paying their obligations promptly. This organization sells to only a few major jobbers who are also conscientious about payment of their obligations. Most retail sales are made for cash; hence, the possibility for collection problems is eliminated.

Compensation for the general manager is in the form of a regular weekly withdrawal. His insurance premiums are paid by the company, and he is furnished an automobile. He indicated that he has a conservative attitude about personal and business money management. It is his basic policy that as much of the earnings as possible be retained within the business for additional or expanded equipment and facilities. He carries product liability insurance, although there have never been any claims.

Production

This business operates both a custom and a mass production shop. The company's metal products are customized; wood products are mass produced. The wood product construction area is set up in the form of a horseshoe-shaped assembly line. There is difficulty which arises from this layout arrangement because it is too crowded. On the other hand, according to the general manager, a crowded operation is much better than one that is spread too much.

Quality control has always proved to be troublesome because of the human element involved in production and because of the caliber of personnel employed by the company. Spot inspection is used to keep control problems to a minimum. If quality control becomes more difficult, full-time inspectors may have to be employed.

Screen repair is becoming increasingly more important to this enterprise. Metal screens are very difficult to repair without the proper equipment. Few companies in the area have the facilities to perform such services; therefore, this business has a more-or-less open field in which to operate and to realize above average profits.

This company's main problem in the production of metal screens is a result of the fact that its principal competitors operate a highly integrated manufacturing organization, i.e., weave their own screens from wire, have facilities to build their own corners, and have their own roll forms. Unfortunately, this business does not have these facilities. Its competitors oftentimes undersell it by substantial price differences. However, since this company's wood manufacturing system is highly integrated and operates on a mass production basis, and since this company can make odd-sized metal screens for doors and windows through its custom-oriented metal operations, it can compete successfully with its more able counterparts.

Inventory control affords few problems since the limited product line is easily housed in the present warehousing facilities. Raw material inventory is controlled by observation. This business is a large purchaser of lumber and allied products. It buys lumber in car-load lots. Dowel pegs are procured in half-million quantities. The general manager reported that his acquaintances are usually impressed when they learn the quantity of lumber and allied products his operation uses. Procurement responsibilities are shared by the general manager and his assistant, a trusted and respected member of the organization who grew up in the sash and door business. In everything but lumber, there is no distinction made between which one of the two persons initiates an order. The general manager purchases all lumber because he is personally acquainted with representatives from major lumber suppliers.

Marketing

This company sells to jobbers, lumber yards, and retail customers. It can compete in the metal window-and-door screen market when selling to retail customers; occasionally, in sales to lumber yards; but definitely not when selling to jobbers.

No major problems are encountered in marketing, which is handled by the general manager and his assistant. The retail sales operation is very simple. Media promotion of retail sales has included the yellow page, display, radio, and television advertisements. Sales promotion is concentrated in semi-annual sales trips made by the general manager and his assistant and in direct mail campaigns through the use of attractively designed mailers. Yard sticks are given to store customers, "supposedly for use in measuring window and door dimensions."

Credit policy is involved only when selling to lumber yards or select jobbers. Both are considered good risks. The only retail sales that are not done on a cash basis are extremely large sales in which the buyer's credit rating is known. Management prefers that large-scale purchases be handled through the use of bank loans.

A cost-plus system of pricing is used in this business. Admittedly, there is a certain flexibility with regard to competition. Prices are subject to periodic review, especially because of competitive friction with jobbers who have in the past attempted to undercut prices. Market research is non-existent except in the mind of the general manager. He knows his product line and the trends in construction.

Location

This business is located in a light industrial area. There have been only minor problems involving the company's location. It would be helpful if a railroad siding were available. The cost of unloading car-loads of lumber would be reduced about $30 per car if a railroad spur were adjacent to the company's property. Truck and rail transportation facilities are adequate and service is good but an adjacent rail spur would be much better.

Unless additional land located to the rear of the factory can be acquired, the long-term opportunities for development of the business seem limited. Present facilities were expanded less than a year ago, but if absolutely necessary, the present facilities could be modified to allow a second floor to be added to the structure. However, it is believed that the current facilities will be adequate for quite some time.

Expansion

After the death of the founder's widow, the general manager plans to incorporate the business as a close-family corporation. In 1952, incorporation was not an advisable move because tax advantages definitely favored the partnership form of organization rather than the corporate form.

The general manager wants to maintain direct control of the business, and as a consequence, he plans no multi-site operations. His limited ambition is caused by the feeling that it is not worth risking the life of a profitable firm in order to attempt expansion unless it is clearly apparent that the company would be benefited.

Summary of Management Problems

1. Nature of the Business.--This business is a product of the depression of the 1930's. In 1938 its founder, after losing a retail lumber business, began manufacturing odd-sized window and door screens. During the period of World War II and immediately following, though supply problems were paramount, a seller's market existed and this more than offset the lack of initial capital.

In recent years, the demand for wooden window and door screens has changed significantly as metal screens have become widely used. Although this business has continued to expand its sale of wooden screens, perhaps as a result of diminished supply from less efficient producers, it has added a metal line; but it has been careful to specialize in odd sizes. It is impractical to compete with large integrated manufacturers of metal screen products.

2. Characteristics of the Owner.--The founder of this business had success and failure. He was 60 years of age when he launched this venture and remained active in its management until his death in 1950.

The general manager, who, with his mother-in-law, has co-owned this business since the founder's death, joined the organization in 1946 after having left the army as a captain. He indicated that his formal education, including a master's degree in business administration, and five years of work experience with the founder have proved very beneficial.

The founder, due to his experiences in the loss of his retail lumber business, was overly cautious regarding accounts payable. He asked that every purchase be C.O.D. This practice was detrimental when supply shortages existed during and immediately following World War II. The current general manager encouraged the use of credit to overcome this problem.

3. Finance.--Initially, capital was very limited. By operating on a strict cash basis, however, the business survived. The founder took no compensation from the business for several months because all earnings were reinvested. His wife sold magazines to finance the family's livelihood.

The general manager or his assistant prepares daily financial reports. An accounting firm prepares monthly summary reports, quarterly profit and loss statements, and annual reports, in addition to state and federal tax returns. Formal cost information is not available. Perhaps the need for more formal cost information will be realized as the volume of the business continues to expand and as the operations of the metal and wood divisions become more procedurally diverse.

The general manager's compensation is limited to a weekly withdrawal. In addition, the business pays his insurance premiums and furnishes an automobile. He reported that he has always been very careful to keep his personal expenses within the limits of his weekly withdrawal. He deplores the "big shot" attitude in some businessmen. He indicated that over the years he has attended their liquidation auctions.

4. Production.--The demand for this business' product line is seasonal. School boys are employed during the summer months to overcome this perennial production problem. There is a vast difference between wood and metal screen production procedures. Although the metal production division is small, as its scope of activities broadens and its volume becomes more significant to total sales, management problems will become more complex, such as the need for additional management personnel.

Problems of quality control have resulted from the failure of production personnel to achieve a standard of constant output. A system of spot checking is used to minimize this problem.

5. Marketing.--By specializing in odd-sized screens, this business met a market need that had not been previously satisfied. The founder was aware of this need because of past experiences in the retail lumber business.

This company is unable to compete in the wholesale market for metal screens because competitors maintain completely integrated systems, i.e., the production of screen from wire. This company does not have the facilities to do this. It has, however, been able to compete in retail sales in repair and, particularly, in the production of odd-sized metal screen units.

The sales of wooden screens have increased substantially in the past few years despite basic changes in demand. This company has expanded its wood screen production capacity while other companies have completely converted to metal production, thereby giving this firm a greater share of the remaining market for wooden screens. Thus, the company has turned a market disadvantage into a strength.

6. Location.--Problems resulting from location have been minor. The major location problem is that no railroad siding is available and, since this company buys in car-load quantities, transportation savings amounting to $30 per car-load could be realized if a rail spur were adjacent to the property.

It is apparent that, for future expansion, land acquisition will be costly because the area is congested.

7. Expansion.--The general manager desires to incorporate this business; however, by mutual agreement, he cannot do this until after his mother-in-law's death. The corporate form will provide for the long-range perpetuity of the company and afford tax advantages. No other expansion or reorganization plans exist.

CASE 7

Nature of the Business

This company is a sole proprietorship that produces a broad line of automobile transmission replacement parts and machine tool equipment. The operation began in 1946 as a one-man backyard machine shop that produced small fittings for use in the refrigeration and butane businesses. It now produces ball seat inserts, pumps, pump plates, and blocking rings for automotive transmissions, as well as an intermediate-quality line of machine tools including heavy-duty drilling and tapping machines and horizontal milling machines. New products under development include a transfer automatic-tapping-and-drilling machine and an industrial pump.

This business enjoys industry-wide sales. Its customer list includes automobile manufacturers in addition to manufacturers of automotive replacement parts. In addition, it sells the world market for automotive transmission replacement parts. Export sales in both Germany and Japan are increasing each year. The owner travels abroad from time to time in conjunction with the Chamber of Commerce industrial development tours. Machine tool equipment manufactured by the company is purchased by local competitors as well as throughout the machine industry. Annual sales of this organization approximate $335,000.

The owner cautioned against the problems inherent in subcontracting because such activities are based on time-and-materials costs without the company's having direct control over its own destiny. He reported that it is very difficult to realize substantial growth when operating as a subcontractor. You can make a good living but not realize any significant growth on the basis of your own initiative. He believes that the goal of every small manufacturer should be to achieve maximum control of his firm's development, and that cannot be done when subcontracting is used as an exclusive method of operation.

The company's fiscal position is as follows: accounts receivable, $20,000; raw materials inventory, $15,000; finished goods inventory, $5,000; tangible fixed assets, $250,000; intangible fixed assets $80,000; short-term liabilities,

$24,000; and long-term liabilities, $30,000. The owner's equity in the business equals $400,000. No surplus exists because this is a sole proprietorship.

An average of 26 persons are employed in this business. These include the owner and his wife, two foremen, a quality control inspector, a draftsman, a clerk-typist, a custodian/warehouseman, and 18 machinists. The organization is divided into machine tool and automotive parts divisions. Employees are not unionized and no attempts to organize them have been made. Fringe benefits include paid one-week vacations and workmen's compensation insurance. Coffee breaks are considered beneficial since the employees typically work at jobs that demand close and careful attention to detail.

As a group, production employees are quite young; their average age is twenty-two. The foreman's age is twenty-six. The employment of young men has, perhaps, limited production and labor costs. Major difficulties have been encountered in obtaining skilled personnel. The availability of such craftsmen in the area is limited, and local companies often pirate machinists from other nearby organizations. This lack of skilled workers has prompted the owner to seek to form an association of local industrialists. The association would have, as its major function, a planned program for explaining industry's needs to representatives from institutions of higher learning and technical schools in the state. He believes that "this is especially important because there seems to be a decreasing emphasis placed upon technical education as a vital part of our education system." It is his conviction that, "the secret of America's greatness is its tremendous technical capacity, and its technical capability must be strengthened if America is to continue to grow."

Physical facilities of the company include a recently completed building containing 6,400 square feet of floor space. It is situated on a three and one-half acre site. Production occupies 4,800 square feet of the available floor space; warehousing occupies 400 square feet; offices, that are presently being remodeled, occupy 1,200 square feet. Specialized machine shop equipment, lathes, drills, foundry tools, and broaching presses are among the production facilities. Much of the shop tool equipment was produced by this business. The owner estimates that the machine tool equipment has a market value that is much greater than its actual cost.

Characteristics of the Owner

The third of five children, this businessman had his first contact with machine shop activities as a youngster in his father's hobby shop. His father is a machinist; and today, he owns a small machine shop. This individual was graduated from high school and afterwards, served three years in the air force. While in the air force, he received two years' intensive training in aircraft engine mechanics. At the age of twenty-one, he founded this organization with $500 which he had saved while in the service. He purchased a turret lathe and began a one-man manufacturing operation. He personally made and sold over 250,000 parts during his first year in business.

After being in business for some time, this man studied mechanical engineering and machine design through a widely-advertised correspondence school. He completed approximately fifty per cent of both courses of study.

His wife has assisted him with clerical work ever since the business was organized. Except for the past few years, she has worked on a part-time basis. As the business has grown, it has demanded more of her time. She plans to become inactive in the near future; so an outside accounting firm is being used, for the first time, to establish a more formal system of accounting. Additional office personnel will be needed to perform the duties which she has been doing.

Finance

The starting capital, amounting to $500, was used to purchase one piece of production equipment and a supply of raw materials in order to begin operations. During the months that followed, expenses were kept within the limits of available funds, and most of the earnings were retained in the business. This has been the basic financial policy of this business throughout its existence.

This industrialist believes that borrowed capital should be used when necessary, provided that it be limited to the extent that outside influence does not assume an active role in the company management. This problem is related to capital turn-over, which he explained in detail. He called attention to the cycle of time involved in movement of capital from production to sales and from sales, as new and added capital, back to production. The longer the sequence of time is, the greater is the need to finance additional production from borrowed capital. He said,

> Whenever this becomes necessary, the manufacturer loses some of his control over operations because financiers (e.g., bankers) who have a vested interest are likely to assume a share of management. More often than not, these men do not really know all there is to be known about a manufacturing

business and they are more of a hindrance than a help. Borrowed money is not necessarily worth the loss in control.

The owner's wife has developed and has maintained the record-keeping system that, though it is essentially only a cash-flow system, has enabled the business to operate within its own capacity for growth, i.e., growth financed from earnings and not from borrowed capital. Until recently, the system has been adequate, but as sales volume has increased and production operations have become more complex, the need for more precise cost information has become apparent. An accounting firm has been employed to establish an integrated system. This kind of system will provide needed cost information as well as other data essential to management. Moreover, new personnel who will be brought into the business will have had extensive accounting training and will be better prepared to use a system that was established by a recognized accountant.

Losses from bad debts have been almost non-existent because the company has been careful to sell to customers who have a good record of meeting their obligations. Most of this company's customers are well-known manufacturers, both foreign and domestic.

The owner of this business receives a regular salary plus an occasional transfer of money from the business account to his personal account. Such transfers are made only after careful analysis of prevailing conditions. It is this industrialist's basic attitude that earnings should be retained in the business in order to sustain growth.

This business carries extensive product and personal liability insurance; it has had no claims against the protection.

Production

Assembly line production operations are used in this company's automotive transmission parts division. In its machine tool division, however, custom manufacturing techniques are used. A very close friend of the owner operates the foundry that prepares the brass and bronze blanks from which this company's transmission products are machined. It was the owner of this business who developed a new foundry process that is used in his friend's business. By using the process, permanent moldings of brass and bronze can be produced. Originally, this businessman operated a foundry within his own operation. However, after his friend began foundry operations, he dropped his foundry activities.

Management problems arising out of production are pressing at this time. The reason is that production is unable to keep up with sales. Currently, the company is faced with an $80,000 back-order problem.

Problems involving quality control are quite limited because the owner is keenly aware of conditions that exist in the production operations. In the opinion of the interviewer, this businessman is happiest when he has grease on his hands and a shop cloth in his back pocket. He carried a shop cloth throughout the interview. Also, on several occasions during the interview, the foreman entered the owner's office to confer with him regarding some aspect of production or quality control. During a tour of the production areas, this industrialist demonstrated the operation of several pieces of "sophisticated" machine tool equipment. He took genuine pride in calling attention to the fact that he had designed and manufactured much of the equipment used in production activities.

Inventory control problems are also quite limited because of the fact that shipments are made just as rapidly as possible after the parts leave the production line. Evidence of this fact is demonstrated when one considers that the warehouse area occupies but a mere one-sixteenth of the total space.

Marketing

For the past several months, sales have been promoted personally by the owner of this firm. His efforts have been supplemented by the activities of eight export agents and one manufacturer's representative who works in the Detroit area. Previously, this company had several manufacturer's representatives located throughout the United States. However, they were dismissed because they did not produce the volume of sales desired. As soon as the company's productive capacity matches or exceeds that of sales volume, the owner plans to employ a salaried-plus commission salesman. One individual has already been declared acceptable for the position, and he has expressed a desire to join the organization.

The owner of this business is always on the alert to promote the sales of his products. Whenever he travels, he makes an effort to contact representatives of organizations that have a use for his products. One of his special interests is the expansion of export marketing by companies in the Oklahoma City area. Whenever the Chamber of Commerce sponsors an industrial sales promotion tour, this person makes an effort to participate.

This business uses very little advertising. When it is used, however, its message is technical. Trade publications of both the automotive and the machine tool industries are used. Advertisements are small when compared with many others which appear in the chosen publications. This businessman believes that advertisements are effective if they attract an inquiry from a prospective customers. He assumes the responsibility for turning an inquiry into an order.

Sales promotion literature is conservative in appearance and very technical in content. A local adversiting agency assists in the preparation of the advertising and sales promotion literature. Participation in trade tours is considered to be the major sales promotion activity.

Marketing research activities are informal but, in the opinion of this businessman, adequate. He has a good grasp of the developments in the industries served because he is an avid reader of technical journals and because he is very active in professional societies such as the National Association of Manufacturers. He considers information in the publication, World Automotive Survey, to be very useful. He is also confident that a demand exists for one of his newer machine tool products because he had to build a unit for his own operations--none was available elsewhere. Since adding the line, demand for the units has been very steady.

A cardex system from the U. S. Commodity Index is being used to code his product line. He believes there is far too much duplication of effort in American industry. He cited the system of coding inventory of parts as examples. If the systems used in the U. S. Commodity Index were applied throughout all industries, much time and money would be saved and a new system of communication could be standardized.

Location

This business is located near a major interstate highway. Three and one-half acres are available and present facilities occupy only approximately one-half acre, thereby leaving much room available for future expension.

There have been no problems resulting from inadequacy of raw materials supply. The owner considers this to be one of the real strengths of American industry. Modern systems of supply and transportation enable this company to receive shipments promptly, as needed.

Motor freight transportation is used to move this company's products to customers. Service is excellent and rates are competitive. The site is less than one minute's driving distance from a major interstate highway.

Expansion

Growth of this business has been steady throughout its existence. The owner realizes that the scope of operations has reached the stage that additional managerial personnel are essential. He can no longer adequately meet the demands of managing all phases of the company's operations. He considers his greatest strength to involve technical direction and product design. Plans for the addition of four managerial personnel include the following: sales director--initially, this person will be a working salesman; technical director--this person must be a graduate industrial or mechanical engineer; general business manager--this person must have a good background in accounting; and the title of the fourth person has not been determined. His functions are to be those of an idea-man who possesses an abundance of common sense. This person can come from any background provided he meets the qualifications.

Criteria for management in this business are as follows:

1. No interest in competitive sports. This person must be aloof from team work. He must be an individual--a coach not a player.

2. Not the top student in his class. People who learn with difficulty tend to retain more than the roadrunner.

3. Possess a personality of a leader. This person must be able to spark initiative in others. He must be quick to grasp problems and to render decisions.

The addition of a second production shift is expected to ease the problems caused by backorders and to offer greater market potential. Some key personnel will be moved to the second shift because they need less supervision than others; and because they will provide leadership for new employees, they will receive additional compensation. At present, the company produces and sells in excess of 20 per cent of the world's replacement market for automotive transmission parts. It is the owner's goal that the company's share of this market be expanded to 40 per cent.

His original goal of becoming an established producer of machine tools has not changed. Long-range planning includes the gradual development of the machine tool division. Cost considerations prohibit a rapid expansion of this division since this businessman insists that growth be financed from earnings.

Summary of Management Problems

1. Nature of the Business.--This business is a sole proprietorship and its owner is conducting what he intends to be a life-long experiment to see how large a sole proprietorship can become.

Without the benefit of a domestic sales force, this business enjoys industry-wide sales. Export sales are increasing each year. This business used subcontracting as a means of survival during the time when a proprietary line was being developed.

Personnel in this organization are quite young. The owner is 41; his foreman is 26. The average age of production personnel is 22. Because of the youth factor, a constant training program is necessary. This business uses extensive machine tool equipment that has been made on the premises. Its market value far exceeds its cost.

2. Characteristics of the Owner.--The owner became interested in machinery when he was very young. His formal education consists of high school, two years' intensive training in aircraft engine mechanics while in the air force, and partial completion of correspondence study of mechanical engineering and machine design. It was obvious to the interviewer that this man's approach is that of a student. He may be described as self-educated.

The owner's wife has been a loyal companion in the growth and development of this business. For many years she worked on a part-time basis; however, in the past few years she has worked full-time. She has handled all accounting and office work.

3. Finance.--Starting capital amounted to a mere $500. By working as a one-man operation for one year, this man gradually acquired needed working capital. It is the philosophy of this businessman that the use of borrowed capital be limited so that complete control of management can be retained.

The record-keeping system that has been used through the years has become inadequate as the business has grown. Realizing the need for more precise cost information, this businessman has engaged the services of an accounting firm to establish an integrated accounting system.

4. Production.--The principal production problem has been an inability to meet sales demands. An $80,000 back order exists. A second production shift is being added to solve this problem. Some key personnel will be moved to the second shift because they need less supervision than others, will provide leadership for new employees, and because they will receive additional compensation.

5. Marketing.--This industrialist personally promotes domestic sales, because manufacturer's representatives have proved unreliable. A single exception is one representative who works in the Detroit area; however, he is not authorized to promote the sale of new products as the line is expanded.

Eight selling agents represent the company abroad; however, this industrialist has felt the need to participate in Chamber of Commerce industrial sale promotion tours that necessitate his absence from the production operations.

No formal marketing research activities are conducted. The owner is an avid reader of technical journals and is active in professional societies from which he gains useful market information. In order to solve a problem of coding his product line, this businessman has adopted a cardex system from the U. S. Commodity Index. He expressed a wish that coding systems throughout all of American industry be more standardized.

6. Location.--The company's location is believed to be excellent, because it is located near a network of major interstate highways. Only one half of a three and one-half acre plot of land is being used. More than ample room for growth is available.

7. Expansion.--The owner recognizes a need for four additional management personnel including a sales director, a technical director, a general business manager, and an idea-man. The owner has precise criteria for the selection of these key personnel.

Long-range planning includes the gradual development of the machine tool division. Growth must be gradual because of the management policy that growth must be financed from earnings.

CASE 8

Nature of the Business

This corporation is the manufacturer of a patented line of recording and control equipment that is used in the petroleum industry. Manufacturing and service divisions are separate corporate entities. Some thirty-odd service companies, that are controlled by the same three incorporators, provide service for the company's products that are leased throughout the United States and Canada.

As its sole domestic customer, the company's service corporation encompasses 90 per cent of the total sales volume that approximates $240,000. The remaining ten per cent goes to foreign markets. The company's product is only leased in the United States and Canada, but it is sold outside of North America.

Fiscal operations are summarized as follows: accounts receivable, $20,000; raw materials and finished goods inventory, $93,000; goods-in-process inventory, $5,000 to $8,000; fixed assets, $50,000; short-term liabilities, $15,000 to $20,000. There are no long-term liabilities. Net worth of the corporation is $150,000, and surplus is in excess of $40,000.

The manufacturing company employes an average of 30 persons. There are five divisions within the corporation, each headed by a supervisor. In addition, the research and development divisions have three generalist technicians and a consultant; the machine shop, three machine operators; warehousing and inventory control, four workers; clerical and accounting, four secretaries. All operations are overseen by the general manager.

Physical facilities of the corporation include a 65,000 square feet area for production, 3,000 square feet of warehousing, and 2,500 square feet of office space. The office facilities are rather old but are well furnished. Production facilities include drill presses, vertical and horizontal mills, turret lathes, gear hobbers, punches, shears, grinders, tappers, welding equipment, paint rooms, and plating equipment.

The plant is located in a heavily industrialized section of the city.

The company's employees are not unionized and no attempts have ever been made to organize them. Among fringe benefits provided employees are two-week paid vacations after a year's employment, free hospitalization insurance for them and their dependents, a retirement plan for which the company pays five ninths of the premiums, paid leaves of absence for illness or jury duty, and coffee breaks. The company strives to maintain good employee relations. According to the general manager, "it will bend over backward for the employee."

When the corporation was organized, a multi-corporate structure was chosen for tax advantages. This type of structure has become unwieldy since it now includes over thirty subsidiaries as well as a newly-established foundry, all of which are headed by the same incorporators. Administrative personnel well realize that there must be a return to a manageable corporate structure in the near future. The general manager said, "Accounting-wise, this multi-corporate organization has meant nothing but headaches as we've grown larger." Preliminary planning for re-organization is now being done.

Characteristics of the Owners

This company was founded in 1937 by an employee of a former local oil company. He obtained patent rights on an automatic device that recorded specific information useful in the practical management of rotary drilling operations and began manufacturing the product in his garage with less than $1,000 starting capital. He was joined shortly thereafter by a former fellow worker who, with the financial assistance of his father and father-in-law, became the principal investor in the corporation. This principal investor continues to be the majority stockholder today. The administrative personnel of the company remained in their respective positions until 1961 when the chief stockholder bought the retiring founder's shares of the corporate stock.

For the past five years, the company has experienced the "pangs of going into a second-generation management situation." This has been particularly painful for the retiring administrative personnel, for they have been very reluctant to "loosen their grip on the company." Under the second-generation management, responsibilities within the organization are clear-cut and well-defined.

The present general manager was graduated from high school in 1947 and attended a state university for three and one-half years while majoring in pharmacy. Since his father was a local pharmacist and owned two drug stores, it was his father's intention that he join him and eventually take over the operation of the stores. However, he became dissatisfied with the field of pharmacy, dropped out of school and joined the air force. Having been married just prior to entering the service, he felt added responsibilities that he had not had while single and in college. He resolved to return to school to complete degree requirements in business as soon as possible after his enlistment had been completed. After four years in the air force, he returned to Oklahoma City and began working part-time for this company while attending an urban university. He received the Bachelor of Science in Business degree in 1957 with a major in marketing and a minor in business management. His only regret is that he did not major in management because his responsibilities are much broader there than they are in marketing.

While attending college, he advanced steadily to more responsible positions within the company. He began his employment in 1955 as an inventory clerk, and subsequently he became assistant purchasing agent, purchasing agent, general manager for foreign sales, and finally, general manager. As general manager, he is in charge of all production, research, development, and foreign sales. The reason foreign sales are included in his responsibilities is that if sales were under the separate service corporation, then it would deal with both domestic leasing and with foreign sales. This becomes somewhat confusing to internationally-operating oil companies who buy the product overseas, but domestically may only lease it. Through the manner by which these operations are organized, different entities handle these two functions.

The general manager attained his present position in 1962. He has few professional, personal, and civic affiliations. He says, "This company is my entire life--it's all I live for."

Finance

The company's initial capital was meager; however, with the addition of capital from the chief stockholder, his father, and his father-in-law, the company became well-off financially. Borrowed funds have never been used, even during a "tight" period in the mid-1950's when working capital was very low.

When the general manager took the position, he established a list of reports concerning the company's fiscal operations that he wanted supplied to him on a monthly basis. These include regular profit and loss statements, as well as a breakdown of the financial status of each department in the manufacturing operation. The manager describes himself as "an autocrat" in regard to budgeting. Since the company's sole domestic customer, as has been noted, is its affiliated service corporation, the general manager works on a more or less self-imposed budget. That is, regardless of what the accountant's figures may show, "so long as the service corporation has unfilled orders, the operation will continue to produce." The operation is essentially run on a month-to-month basis, varying according to fluctuations in the oil industry. Since each drilling rig is a potential location for the application of the company's products, weekly surveys of active rigs are watched carefully.

The company recognizes that its industry is declining both locally and nationally; it is coping with this problem in two ways, through expansion and diversification of the product line. In order to boost or even to maintain profits from the oil industry, the company has produced more specialized and sophisticated equipment. In this manner, a number of the company's products may be used on a single oil rig. However, it has been necessary to educate and orient drilling crews to the usefulness and benefits of the more elaborate equipment. At the same time, though, this equipment is more costly to build and has more chances for flaws. The first addition to the company's product line was developed in 1956. Prior to that time, a modified version of the originally patented product was the only product manufactured by the business. Because of additions to the product line since 1956, income potential from a single working rig has been increased by 1,150 per cent.

Because of the precision requirements involved in the manufacture of these products and because of the relatively slow turnover of products, production is extremely expensive and involves small quantities. Stock items are either used directly or are modified by the production personnel for use in the finished instruments.

By slightly diversifying its product line, the company has found that its product can be useful in the mining industry--for both open pit and tunnel mining. Until now, there has been no instrumentation used in the mining industry which has allowed even simple calculation of production efficiency. This company's modified products can provide this service; however, no great investment has yet been made in this type of diversification because the company is not totally satisfied with merely modifying the oil industry product. Rather, it wants to establish a completely new line of products which are based on the same scientific principles but are of value to the mining industry.

Until 1955, financial records were handled by four bookkeepers and an outside accounting firm. Since that time, a full-time accountant has headed record-keeping operations.

All employees, including administrative personnel, have fixed salaries, and they and their dependents are provided free comprehensive hospitalization insurance by the company. The goal of the president of the corporation is "to take care of the employee." The company also has additional fringe benefits that are of a specialized and protective nature and that the general manager feels have prevented any attempts by unions to organize the employees. An example of these is the provision of a sound credit rating (that is, company backing) for an employee in financial difficulty.

The company carries no product liability insurance except in those states where it is required by law. In those instances, it is generally a bond fee rather than actual insurance. There is no insurance on leased equipment because replacement costs of damaged or destroyed instrumentation is less costly than insurance.

Production

The company's production operations are essentially custom in nature because of the small quantities of works in process at any one time. The major problem in production is quality control for at present, the company has no formal quality control system. The general manager has recognized this problem for a long time and is working to solve it. Within the next six months, he plans to transfer to the production headquarters from the field service operations an employee who is familiar with individual oil field idiosyncrasies and who can deal exclusively with product instrumentation calibrations.

Because of the company's disadvantageous location in relationship to suppliers, it is necessary for the general manager to make a number of trips annually for the sole purpose of procurement. All procurement is handled by means of purchase orders that must receive final approval of the general manager. The company has had minor problems in obtaining certain raw materials such as, cadmium, nickel, and copper (for brass). The general manager feels that this is due to deliberate governmental efforts to manipulate the market. The United States is the world's principal producer of cadmium and fourth largest producer of nickel. The metals are obtainable, according to the manager, "at exorbitant prices or through 'black market' prices for inferior quality material." Rhodesia is one of the world's chief sources of copper, which is a constituent of brass. Brass is used regularly in the company's foundry and production activities. Unfortunately, embargoes on Rhodesian products have severely limited the American supply of copper. The price of copper has increased drastically in recent months.

The general manager is often tempted to use imported foreign products that are not only similar in quality to American-produced raw materials but are also considerably lower priced. An example of this is steel wire which is obtainable from West Germany, Italy, Sweden, and Japan at 50 per cent savings. Thus far, however, the company has used domestic products as long as they have been available.

Marketing

Since the company has had exclusive patent rights on its product for many years, it is a widely-known standard brand name in the oil industry. Nevertheless, the company makes use of direct mailings every one and a half to two years. More frequently, however, advertising in national and international trade journals is used. Direct mail campaigns are considered by the general manager to be a wasted effort.

The export market is handled by the manufacturing corporation. Export sales are made in three ways: (1) through domestic oil field supply companies with representatives overseas, (2) through foreign sales agents who request to market the company's products, and (3) by direct contact by the foreign purchaser. The company grants discounts to foreign sales agents if they handle all matters pertaining to currency exchange, tariffs, and similar matters; and if they take possession of the equipment at point of exit. No sales are made to "Iron Curtain" countries.

Only a small amount of market research has been attempted by the company. That was over five years ago and was principally concerned with exporting. Only 10 per cent of the company's sales are made to foreign markets, while the remaining 90 per cent goes directly to the service corporation. The company services between 65 and 70 per cent of the domestic market. Its four competitors divide the remainder. Losses due to bad debts in the most recent year totalled $2.78. The company relies on its customers' business conscientiousness to meet their obligations. If a foreign customer refused to pay his obligations, the company, in most instances, would have no recourse but to absorb the loss. Obviously, thus far no problems of this nature have been encountered.

Location

The geographical location was described by the general manager as "lousy." "By all rights, this company ought to be in the Chicago or Philadelphia area. Even Dallas would be better than Oklahoma City." The major problem concerning location is that few suppliers have sales representatives in the Oklahoma City area. This causes some difficulties in procurement of technical instrumentation necessary in production. As for marketing, the geographic location is "as good as any." The company uses air and motor freight lines, that provide good service at reasonable rates.

The company's physical plant covers half of a city block. Additions to the physical plant were made in 1954, 1960, and 1964. These additions consumed all additional land for expansion available at the present location. Property about a half mile away was secured several years ago. If acquisition of property adjacent to the latter is possible, the company will move its operations to more compact and improved facilities there. Presently the city plans to construct an expressway, the terminus of which would be in the present plant's vicinity. It may be necessary, therefore, to vacate the present property because of eminent domain rights of the city.

Expansion

Because of the continuing decline of the oil industry, management is exploring the possibilities of expanding the company's product line to include equipment that should have a major appeal in the mining industry. Already, it is known that only minor modifications of the product line need be made in order to make the units useful in the mining industry. Before major investments are made in a new line, management wants to be as certain as possible that adequate market demand exists.

Additional diversification of the present product line also appears to be desirable because of recent developments in automatic recording apparatus. Management realizes the company must strive to improve its existing products lest new, space-age recording devices make its products obsolete.

Reorganization of the business is desired because of the cumbersome situation that exists in administration and coordination of the several corporate entities. Formal plans have not been completed. It is quite likely the company will have to be relocated because of the apparent inevitability of the construction of an expressway through the property on which the business is now located. Land which had been acquired for expansion is no longer adequate. Unless adjacent property can be acquired, another site will have to be found.

Summary of Management Problems

1. Nature of the Business.--The organizational structure of this business is multi-corporate. It was established in this form for tax advantage purposes. This structure has become unwieldy from a legal and accounting viewpoint. Management is presently in the process of reorganization of the legal entities into a more manageable structure.

2. Characteristics of the Owners.--During the past five years, the company has experienced some difficulties in transition from a first to a second generation management. The older administrative personnel were very unwilling to surrender managerial control to their younger replacements. Under the new management, functions and responsibilities are clearly defined.

The general manager's experience well demonstrates the company's forward-looking attitude toward perpetuity of the business enterprise. He entered the business and earned his advanced positions through diligence and shrewdness.

3. Finance.--The company recognizes that the oil industry is on the decline both locally and nationally. In order to maintain financial stability, the company has expanded and diversified its product line. Diversification has included the production of a more sophisticated line of instrumentation which can have multiple application on a single producing oil rig. The company also is presently investigating expansion of its product application into the mining industry. It has been found that the mining industry has no economical means of obtaining production efficiency data. The company is developing a separate line of technical instruments for use in the mining industry.

4. Production.--The company's production is on an essentially custom basis because the number of items in process at any one time is quite small. This greatly increases the individual product cost. Since the company does not allow its product to be sold domestically, but leases only, this causes the finished product inventory to be rather sizeable at times.

The company has no system of product quality control. Presently instrumentation is calibrated at the production site and then shipped to the customers. On occasions this has led to incorrect reporting of data by the equipment because of idiosyncrasies of individual oil fields. A long-experienced employee from the sister service corporation will soon fill the position of quality control inspector to ensure proper calibration of instrumentation before distribution.

Procurement of needed raw materials has often proved difficult for this company. Federal governmental restrictions on cadmium and nickel distribution has severely limited its availability. Copper, a constituent of brass used by the company's foundry and regular production operations, is also in short supply because of international embargoes on Rhodesian exports, including copper.

5. Location.--In regard to procurement, this company is in a "lousy" geographic location. Because of the necessity of procuring technical instrumentation for production, the general manager of the company must make a number of business trips annually for the sole purpose of procurement. The reason for this is that no major suppliers of the required instruments have sales representatives who cover the Oklahoma City area.

6. Expansion.--The company has spread its operation over all available land at its present location. Since it is hemmed in by other industrial businesses, acquisition of additional property in the vicinity would be very costly, if not totally impossible. The plant is also threatened by the involuntary sale of its property because of the city's right of eminent domain. The company obtained some property about a half mile from its present location several years ago. The general manager plans to move the company to that location if additional adjacent land can be purchased. If relocation is accomplished, new, more compact facilities will be constructed for the operation.

CASE 9

Nature of the Business

This business, which was organized as a government contractor, was originally involved with rebuilding or reconditioning aircraft maintenance equipment through machine tool fabrication and installation of parts. Recently management changed the company's basic marketing objective from that of government contracting to that of independent manufacturing by the addition of a division which produces a proprietary line of prefabricated metal products. The reason for the change resulted from the difficulty and uncertainty of securing contracts on a regular basis. Quite often the company has been hard-pressed to meet commitments while contracts have been operative. On the other hand, as soon as the contracts have ended, management has been equally hard-pressed to meet the requirements of fixed overhead. Management believed that the decision was essential if the company were ever to be able to overcome the problems of cyclical business activity.

The new division, for a short time, concerned itself with the development of a limited line of fishing barges; however, that venture was abandoned because of the company's marketing incapability. The division is now remanufacturing specialized automobile parts for which there is apparently a pent-up demand in the local and regional markets. Much of the equipment that is needed in government contract work is readily adaptable to the development of the line of reconditioned automobile parts.

The firm's physical plant, which is located on the western edge of metropolitan Oklahoma City, is oftentimes crowded with equipment which, when contracts have ended, has had to be removed from sites that had been provided at government installations. The plant property, which is owned by the president, contains 12,000 square feet of space which is divided as follows: production area, 6,000 square feet; warehouse, 4,000 square feet; and office area, 2,000 square feet.

Annual sales of this business exceed $400,000. The government contracts division provides sales in excess of

$250,000, while the product division approximates $150,000 volume. Fiscal operations of the company may be summarized as follows: accounts receivable, $35,000; works-in-process inventory, $38,000; finished goods inventory, $15,000; raw materials, $5,000; tangible fixed assets, $60,000; intangible fixed assets, $5,000; short-term liabilities, $20,000; long-term liabilities, $120,000 (Small Business Administration loan, $50,000, to be repaid in eight years; bank loan, $10,000, for needed working capital; and the balance for equipment purchased under installment contracts). The company was incorporated in 1962 for $50,000 with stock issued at that time totalling $19,000. Since that time, additional issue of $15,000 has been made.

An average of 40 individuals are employed by this firm; however, during periods of peak contract activity, it is not uncommon for the payroll to include between 70 and 80 employees. Administrative personnel include the president and vice president. Six supervisory personnel direct the production activities. The government contracts division includes welders, mechanics, electricians, plumbers, painters, and non-skilled laborers. The product division includes straighteners, platers, pater's helpers, polishers, and warehousemen. Three salesmen are included in the latter division; whereas, the president secures the contracts that provide the sales of the other division.

Production facilities include precision tools for working metals--straightening and framing presses, cutting and welding apparatus, plating and polishing equipment, and spray painting equipment. Also included are electrical and plumbing tools and assorted hand tools.

Office furnishings are functional but rather old in appearance. Filing cabinets and office appliances are obviously surplus items from World War II.

The employees of this business are nonunion, and there have been no attempts by labor to organize them. It is believed by management that it may be necessary for the company to promote unionization of the employees because of the requirements that are being imposed on the company by contracts with the federal government.

The limited fringe benefits that are provided employees include partially-paid group health and life insurance, workmen's compensation, and paid vacations for "lead" men. It was reported that the fringe benefit situation is critical because one of the most pressing needs is the retention of capable young men in the business. This problem is a result of insufficient working capital.

This business has sought to overcome the problem of inadequate working capital in the following ways. A bank loan of $10,000 has been obtained to increase the firm's working capital; it is to be repaid over a period of five years. In addition, the firm has secured an eight-year loan of $50,000 from the Small Business Administration. While these loans have eased the immediate burden of inadequate working capital, they have failed to solve the problem; and in some ways, they have compounded it. Management believes that this problem cannot be eliminated until the volume of its proprietary line is adequate to eliminate the pattern of extreme cyclical business fluctuations.

Early in the history of the company, almost before basic production capability had been established, this firm was awarded a contract that was over thirteen times greater than its net worth. The owner realizes now that the contract would be almost impossible to fulfill. The inevitable problem that resulted involved inadequate working capital because of the 13:1 ratio of sales to net worth.

Characteristics of the Owner

The president was graduated from high school in 1942, after which he entered the army air corps. While in the service, he served as an aircraft mechanic, an experience that he regards as having been very beneficial because from it he developed some of the ideas for his present business.

Following his discharge from the service in 1946, he entered college where he majored in geology and minored in mathematics. Originally it was his plan to enter the petroleum industry as a geologist; however, by the time he was graduated in 1951, the demand for geologists had diminished sharply. Following graduation, he secured employment at Tinker Field where he remained until 1956. While at Tinker, he worked in supply, production, receiving, and in civil maintenance. In production, he served as an inspector and also developed production specifications.

Between 1956 and 1958, he managed a small steel fabrication business. His experiences in that business served as the catalyst for his present organization. He reported that in those two years he was "forced to learn something about money management," a subject that he had disliked very much. He said, "I hate record books, finances, or any part of anything to do with money." However, in order to launch this venture, he had to borrow most of his funds from friends and relatives. In 1958, he had acquired a total worth of $19,000, most of which had been secured from those individuals mentioned and from loans on insurance policies.

It has been the president's inclination not to delegate authority to other individuals. While, for example, an individual has the title of vice president, it is difficult to identify any functions over which he has primary responsibility.

Finance

The use of borrowed capital has been the rule in this organization. When organized in 1958, the business had a net worth of $19,000, of which, equipment was valued at $11,000. Shortly after beginning operations, the company received a one-year federal contract for $250,000. The contract stipulated the hourly rate of compensation for the company's employees. During the one-year period, the company invoiced materials weekly and invoiced labor as individual units were completed. The company expended $20,000 on equipment the first year of production thereby exhausting the company's working capital.

Since its first production year, the company has operated on borrowed capital. Unfortunately the owner did not become aware of his drastic shortage of working capital until it was nearly too late to avoid bankruptcy. Not long ago a $50,000 long-term loan from the Small Business Administration was negotiated thereby supplementing funds already obtained through bank loans. The firm's limited working capital ratio continues to be a major financial problem that must be overcome. The new product line has been added in order to stimulate a more regular flow of revenue from product sources.

The company's record-keeping system was established by a public accountant when the business was organized. However, the president's niece serves as a part-time bookkeeper, office aide, and stenographer for the firm; she maintains only very basic records. There is no system of sales forecasting, nor is there a process by which the management may stay abreast of the financial status of the business operation.

Production

This company's products are of two basic types: parts and installations for aircraft maintenance equipment, both new and reconditioned, and a specialized line of reconditioned automobile parts. Production control in the aircraft maintenance equipment division is dictated exclusively by specifications prescribed in government contracts. "Lead" men are responsible for inspection and quality control; moreover, government inspectors maintain final authority regarding acceptable product quality. Production control in the automobile parts manufacturing division is the responsibility of a supervisor.

Routine materials purchases are initiated by the president's niece, but major purchases are initiated by the president. Three principal suppliers furnish materials used by this corporation. The president reported that inventory management is a persistent problem that must be overcome because the availability of parts for the automotive remanufacturing division is very uncertain and causes fluctuations in costs. If the remanufacturing division grows as expected, the inventory control problem will undoubtedly expand to the point that a full-time employee will be needed to search the market for a continuing supply of parts for remanufacture. Inventory management in the aircraft maintenance equipment division is less complicated because government specifications stipulate minimum inventory requirements as well as establish priority for securing parts during periods of material scarcity.

Marketing

Sales for the contracting division are handled exclusively by the president because it is he who negotiates the bids. He feels that there is no feasible way whereby the function of bidding can be delegated. Since the opportunity for profit versus the risk of loss is within a very narrowly-defined range, he is confident that no other person in his organization has the capability of preparing a competitive bid. Three salesmen represent the company in remanufactured automobile parts sales. Although principal customers are independent automobile body shops and garages, efforts are being made to increase the customer list by including franchised dealer's body shops.

The firm's pricing policies for its remanufactured automobile parts provide a competitive advantage. The formula used is new list prices less forty per cent divided by two, or a seventy per cent savings for the customer. Insomuch as the cost of remanufactured parts fluctuates substantially, it is believed by the owner that the company's pricing policy may be in need of revision in order to expand the margin of profit.

Pricing in government contracting involves an analysis of the necessary costs of materials, supplies, and labor, plus a markup from which the company's profit margin is derived. The constant challenge for management is to minimize inefficiency in order to maximize profits that will result in an improved working capital ratio.

The advertising and sales promotion efforts of this business are limited to "Yellow Page" inserts in the telephone directory and the routine distribution of price sheets to customers and prospective customers of the remanufactured automobile parts division. No advertising and sales promotion is involved in government contracting.

The president of this business strives to maintain a close liaison with high-level civilian employees of near-by government installations. In addition, he is seeking to develop a camaraderie with representatives of the automobile service and automotive insurance industries in the area.

Since adding the automobile parts remanufacturing division, increasing problems of collection have been encountered. For a company already in difficulty in its working capital position, much effort to forestall collection problems is being exerted.

Location

Little or no forethought was given to the site location of this company. The president, prior to establishing the firm, had the opportunity to take advantage of what he considered to be an excellent real estate purchase. Because of the haphazard manner of selection of the site for the company's operation, the firm now finds itself at the disadvantage of being a considerable distance from its principal contract installation, although the location is of less consequence when considering the automobile parts remanufacturing division. One obvious limitation is that no railroad siding is available. In addition, room for expansion may be gained only at a substantial price premium because of the dense industrialization of the area in which it is located. Because of the location away from a rail spur and because of cost considerations, the company has relied on the use of a company-owned truck for the transportation of materials and supplies as well as delivery of finished products.

Expansion

The company has no plans for expansion at the present time. The president feels that the company has progressed as far as possible without adequate working capital. The recent expansion of the company into the automobile parts remanufacturing line is, it is hoped, to provide adequate working capital for the future. Plans for methods of increasing sales and for establishing a fixed operating budget are anticipated to help alleviate the company's financial problems.

Summary of Management Problems

1. Nature of the Business.--This company was organized as a government contractor. From its founding, it has been plagued by insufficient working capital. In an attempt to overcome this inadequacy, the company has recently added a division which remanufactures a specialized line of automobile parts.

The company's first large government contract was for an amount thirteen times greater than the firm's net worth. This contract entailed purchase of expensive equipment which consumed the company's profit from the first year of operation.

2. Characteristics of the Owner.--This company's owner has little real background in the area of money management. He, in fact, states that he hates record-keeping or anything to do with finances. This attitude perhaps is indicative of the reason for the company's financial straits.

3. Finance.--The company has from its inception operated on borrowed capital. An initial over-investment in fixed assets has tended to perpetuate and further complicate this problem.

Only a part-time bookkeeping assistant is employed with only basic records maintained for the company. There is no method of sales forecasting and no system for determination of the day-to-day financial status of the company.

4. Production.--Persistent problems have developed in management of the company's inventories. Oftentimes the ratio of raw materials to works-in-process becomes unbalanced with either crowded inventory storage or shortage of raw materials resulting.

5. Marketing.--The president is the only salesman for the contracting division. He has allowed no one in the company to be delegated the responsibility of making bids.

Pricing policy for the company has proved to be a "make-it-or-break-it" proposition. Since the company works on a narrow margin of profit, the constant challenge to the company is to devise methods by which inefficiency may be minimized in order to maximize profits.

6. Location.--The company's location was unplanned. The president established the firm on a site that he had previously purchased for investment purposes. The site has, however, proved disadvantageous because of its distance from the major government contract work sites and because of the absence of a rail spur. The site location, though, is of relative unimportance to the automobile parts division venture.

7. Expansion.--This company attempted to expand its operation too rapidly. In so doing, the company has had to rely completely upon borrowed capital for its existence. Until a sufficient working capital ratio can be attained, the company cannot consider further expansion.

CASE 10

Nature of the Business

This firm produces both customized and standardized furnishings and equipment that are used in restaurant and tavern businesses. When started in 1946, it was a partnership and served as a distributor of beer tavern equipment. The partnership was dissolved after six months when one partner purchased the equity of the other. The individual who sold his interest to his partner had become dissatisfied because of the difficulties encountered in securing deliveries from suppliers, for back orders were the rule rather than the exception.

For the following twelve-month period, the remaining owner operated the business as a sole proprietorship. At the end of that period it was obvious to the owner that better opportunities would result if the firm manufactured most of the furnishings and some of the equipment for which a heavy post-war demand existed. In order to secure the necessary capital to add the production capability, the owner reorganized the business as a close family corporation.

The business operates under a multiple corporate structure at the present time in order that legitimate tax advantages might be secured. Recent changes in the tax laws, however, have made the use of additional corporate entities less advantageous and it is anticipated that the "paper" corporation will soon be dissolved.

Most of the business' production is custom-manufactured according to buyers' and cooperating suppliers' specifications. The fiscal operations of this business are as follows: accounts receivable, $70,000; materials and finished products inventories, $170,000; fixed assets, $58,000; short-term liabilities, $100,000; and long-term liabilities, $150,000. Capital stock issued totals $30,000 and retained earnings exceed $120,000. Annual sales exceed $1.5 million.

Thirty-five individuals are employed by this organization. In addition to the president who is chairman of the board, there are six administrative and eight marketing personnel; three, supervisory; five, accounting and clerical;

nine, production; and the remainder, maintenance. The production personnel, who are overseen by a foreman, include five cabinetmen, two metalmen, and three upholsterers. The maintenance employees perform delivery, installation, and service functions.

The physical plant includes 7,000 square feet of production area, 5,000 square feet of warehousing, and 800 square feet for offices. Production equipment includes power saws, planers, routers, lathes, drills, metal brakes and shearers, and welding and upholstering equipment. The company leases the properties upon which plant and sales facilities are located. Production activities are housed in a Quonset-type building that is located adjacent to a masonry-construction steel frame building that houses the company's offices, warehouse and display areas.

Although a union has repeatedly sought to organize the workers, the president reported that the employees are not unionized. He stated that he is not opposed to his employees' organizing, but he attributed the failure of unionization attempts to good employee relations and fringe benefits. Fringe benefits include an annual two-weeks paid vacation, an annual company outing, and free hospitalization insurance for employees. Salaries are equal to or higher than the industry standard.

This business has experienced financial success. Almost from the beginning the company has been able to sustain and to enlarge itself through sound financial management of retained earnings and bank loans.

Characteristics of the Owner

The president and chairman of the board of this corporation was reared in a mideastern state. His introduction to Oklahoma occurred during World War II, when he received naval cadet training at the former navy base at Norman. While in the service, he attained officer's rank in the United States Marine Corps. After resigning his commission in the marines, he moved to Oklahoma City. He reported that he decided to stay in Oklahoma because he "liked the progressive attitude of the people" he had met while he had been in the state as an aviation cadet. He had also met a young woman whom he later married.

In Oklahoma City he sold encyclopedias for a short time; but although he was a successful salesman, he wanted to go into business for himself. In November, 1946, he and his partner purchased a small beer equipment company for $9,000. His financial holdings at that time included $40 cash, a

Plymouth automobile for which he owed $550, and his part of a $6,800 note payable to the former owner of the beer equipment company. His partner provided the necessary $2,200 down payment. After operating the business for six months, his partner became disenchanted because it was very difficult to secure shipments from their suppliers since post-war demand was so great. The partner sold his share of the business to the interviewee who had obtained a $4,000 loan from his father. The loan was repaid during the following year as a result of continued increases in demand and improved availability of equipment units.

Hard work was not a new experience for this individual insomuch as he had, at an early age, worked in his father's two grocery stores. He credits his father with having impressed upon him the additional values of perseverance and honesty. While he was in school, he operated a cafe which his father had purchased for him; however, he was not really interested in the cafe business. He liked automobiles and wanted to become an automobile dealer. In fact, when he entered the service, he fully intended to return after the war to his native state to obtain a dealership.

Finance

It was reported that the partners purchased for $9,000 a business that was actually worth about $2,000. An initial payment of $2,200 was made, and the partners co-signed a note for $6,800 payable to the former owner. Since only one partner had an initial cash investment, by mutual agreement of the partners, his share of the note was to have been reduced accordingly.

From the beginning, business was good because of the pent-up demand of the post-war economy. The major problems encountered at that time were not financial, but rather resulted from inadequate supply of equipment for distribution. In every respect the business was secured at a time when a seller's market existed.

When one partner decided to withdraw, it was necessary for the remaining partner to secure $4,000, part of which was paid for his partner's equity; and the remainder was retained as working capital. The $4,000 loan was obtained from the remaining partner's father. For slightly over one year, the firm was operated as a one-man sole proprietorship. Since shipments of new units were so difficult to get, it was a common practice for the owner to purchase used equipment wherever it could be found and to spend most of his weekends reconditioning it. On Mondays the reconditioned equipment was usually sold, most frequently for cash with markups normally amounting to 100 per cent at cost. By the end of the year, he had repaid his father the $4,000 loan as well as made regular payments to the former owner.

Accounting records were established and maintained by the owner; however, the business grew so rapidly that the system proved inadequate. A local bookkeeping organization was then authorized to reorganize the record-keeping system and to maintain the records. The system that the bookkeeping firm established was not changed significantly until approximately five years ago when a certified public accounting firm was engaged to develop a more elaborate system of record-keeping, budgeting, and reporting. It was upon the advice of the accountant that the "paper" corporation was established.

The business was incorporated initially after the firm had operated as a sole proprietorship for a period of less than two years. It was recognized by the owner that more rapid expansion could occur if additional capital were available. A close family corporation was chartered and the desired capital was acquired from family investors.

An established practice has been extensive use of bank loans to finance and refinance "floor-planned" sales to customers. This is a common practice for distributors of equipment which has high unit costs; however, it requires acuity in accounting and financial management.

Although paid on a regular drawing account basis, the owner's compensation was at first quite limited. It continues to be his policy to limit his personal income in order that earnings might be retained in the business. He says, "That's just good business."

Losses from bad debts have created some problems for this organization because of the nature of the clientele it serves; however, careful analysis of each customer's credit capacity and payment record has proved beneficial in minimizing this problem. According to the president, "this is an area of financial management where continuous and systematic efforts must be made."

Production

Production problems are increasingly difficult to overcome. Major problems stem from a turnover of personnel that, because of mistakes and waste, results in difficulty in achieving quality control and maintaining desired unit costs. Operating from a "work station" system, personnel build custom units and equipment that must meet customers' specifications. Standardized proprietary units are constructed in much the same manner as the custom equipment; but as one might expect, production problems are less difficult. The majority of the units sold, however, are custom-made. Recently, this firm has begun purchasing component units from a competing organization in Kansas City, thereby reducing the demand for its own manufactured products.

Inventory control difficulties have resulted from price fluctuations of finish metals that constitute a major part of the completed equipment. A natural consequence is substantial unit cost variations.

This business was at first only a distributor. As the organization grew and supply of needed custom units and equipment became more difficult to secure, manufacturing capability was established. The organization has continued to operate as a producer and distributor. Yet, it has been unable to accomplish the production know-how that had originally been desired. As a result, the president has become somewhat disenchanted with the continuation of manufacturing at present levels. It is likely that production will be curtailed somewhat now that a satisfactory supply source is available.

Marketing

This is essentially a selling organization. The president is market-oriented because of his own personal success as a salesman. It was obvious to the interviewer that marketing receives most of the president's time, interest, and attention. Perhaps this suggests a partial reason why production problems have not been solved.

Sales have increased every year since the business was acquired. The president has personally been responsible for much of the sales volume. One of his major problems, however, has been the difficulty of encouraging long-established customers to permit individuals other than the president to call on them. In addition, the president has always prepared the sales promotion literature used in the marketing efforts. Preparation of sales promotion layout, design, and copy is time-consuming, that explains, in part, the reason the president spends up to 60 hours weekly in his office. Very little advertising is purchased by this business other than a "Yellow Pages" telephone directory insert and an occasional classified newspaper advertisement listed under business equipment. It was reported that "word of mouth advertising" is probably the best source of new customers that this business has.

So long as the president was able to be personally involved in the negotiation of a sales contract, few collection problems resulted. He always attempted to get a good down payment as well as to evaluate carefully the credit rating of the prospective customer. After sales reached $1 million annually, collection problems began to mount.

Location

A general congestion of the area in which this business is located creates some difficulties for prospective customers who visit its showrooms. Space is adequate and room for expansion is available; however, the neighborhood will undoubtedly change significantly within a short period of time because the cross-town expressway is located nearby and a planned access street will pass close to the plant site creating even more traffic congestion in the area. Since the firm leases the property, only minor problems should ensue should relocation become necessary.

Expansion

Approximately three years ago a management consultant analyzed the company's organizational structure and recommended that it be developed on a divisional basis. Implementation of the planned reorganization is in its final stages. The president reported that his tasks have eased somewhat since the reorganization and overall efficiency is improving; the single exception is in production.

This business has enjoyed a rapid and steady growth that has made it difficult to attract capable employees as promptly as needed. It requires considerable time to train new employees, and trained personnel are not readily available in the area.

Summary of Management Problems

1. Nature of the Business.--This is a successful business that has operated as a sole proprietorship, a partnership, and a corporate structure. The original partners thought they had acquired a "going" enterprise; however, about all they got was an inventory with which they organized their business.

One of the partners chose to withdraw from the business after a period of six months, thereby forcing the remaining partner to assume the existing indebtedness. With his father's help and with constantly improving sales, the owner was able to survive the crisis.

A close-family corporation was later organized in order to attract additional capital.

2. Characteristics of the Owner.--This individual did not attend college because of World War II. He attained officer rank in the marine corps. Although lacking extensive formal education, this businessman gained valuable work experience in his father's two grocery stores, through operating a restaurant while in high school, and as an encyclopedia salesman immediately after the war.

3. Finance.--Except for the financial crisis that occurred after the withdrawal of one of the partners, financial management problems have beem limited. Operations were begun at a time when a seller's market existed because of the pent-up demand of the post-war economy.

As the business grew the accounting system was reorganized twice. A certified public accounting firm established the system that is in use at the present time. It is functional and management is utilizing the data that it furnishes.

In order to prevent excessive losses from bad debts, management has had to follow precise credit and collection practices.

4. Production.--Since production problems have been multiplying rather than decreasing, it is likely that production curtailment will soon occur. The problems appear to arise because the president concerns himself very little with production.

5. Marketing.--The major marketing problem results from the growth pattern of the organization. No longer is the president capable of direct participation in and control of marketing activities. Many long-term customers are having difficulty in realizing that the president cannot continue to handle their accounts personally. Moreover, the president has found it almost impossible to find the time to prepare sales promotion literature, which has been his custom.

6. Location.--Principal location problems result from changes in the nature of the locale. Traffic congestion in the area can only increase, thereby reducing the accessibility of the plant and office sites.

7. Expansion.--Three years ago a management consultant recommended reorganization along divisional lines. The impact of the reorganization has been effective everywhere but in production.

This firm has been a growth organization. As a result, management has been severely challenged to find, as promptly as needed, capable new employees.

CASE 11

Nature of the Business

This corporation is a producer of pumps and compressors used in the liquified petroleum gas industry. It was founded in 1945 as an outgrowth of a manufacturer's representative agency that had been in operation since 1907. The company has a world-wide market and exports approximately 20 per cent of its total production.

The company's present physical facilities are about four years old. Production and warehousing account for 25,000 of a total of 29,000 square feet, with the remaining 4,000 square feet being devoted to office space. Production machinery includes turning and boring metal-working equipment, such as lathes, mills, drill presses, and assembly and plating facilities.

There is an average of 75 employees in the four general divisions, each of which is headed by a division manager. The engineering division has four employees, including the executive vice president; the sales and service division, eight employees, including the president; the office division, eight employees. The remaining 55 employees are assigned to the production division.

The company's personnel are not unionized, although only two years ago they rejected a bid for unionization by a one-vote margin. No attempts to organize them have been made since that time. The company provides extensive fringe benefits for its workers, including paid holidays, two-weeks vacation, and sick leave; free hospitalization insurance for all employees and their dependents, life insurance for all employees and their dependents, and life insurance on employees; free uniforms; retirement and pension benefits paid by the company; and company payment of 50 per cent of any training courses taken by its employees. Workers who successfully complete training courses that are mandatory for advancement receive bonuses also.

The company's financial status is as follows: annual sales, $2,300,000; accounts receivable, $193,000; total inventories, $300,000; fixed assets, $263,000; short-term liabilities, $286,000; long-term liabilities, $157,000. Owners' equity totals $500,000.

The biggest problem of this company is what the executive vice president calls lack of "versatility in people." By this, he means that his personnel need a broader background. This is particularly true of the individuals in managerial positions. He believes that too frequently employees come into a business with little or no background in such things as basic English, business, and engineering; i.e., they cannot make practical applications of knowledge that they may have gained in college. It takes time to indoctrinate and fit these people into the operation. The average employee often does not realize that, when he is producing at his maximum capacity, he is enhancing his own position with the company. The lead men are not always the best craftsmen but rather the demonstrated leaders--those who show diligence, persistence, and ingenuity in their work. The executive vice president feels that he could reduce his employee force by half, if he could have as high a caliber of individuals as that in his corps of division managers.

Characteristics of the Owner

This small industrial firm is an outgrowth of a manufacturer's representative agency that was started in 1907. In 1945, the agency founder's son and a friend began manufacturing operations within the framework of the manufacturer's representative agency. The original incorporators included the founder as president; his son's friend as vice president and his son as secretary-treasurer. The founder continued his operation of the manufacturer's representative agency until his death in 1957, when the company dropped its representative affiliation. When the son, who had become corporate president at his father's death, died in 1962, his friend and an associate purchased controlling interest in the corporation from the estate. The friend, who had been corporate vice president and chief engineer of the manufacturing operation, became executive vice president under the new ownership. The president also heads an unrelated manufacturing corporation that is adjacent to this business.

The executive vice president is the chief administrator of the corporation. He was graduated with a bachelor's degree in architectural engineering in 1942 from a midwestern state university and joined a nationally-known oil company for three years as resident construction engineer at its national offices in northeast Oklahoma. In 1945, he joined his late corporate partner in establishing the manufacturing operation with financial assistance from the founder. Since the start of manufacturing operations, this businessman has held the position of corporation vice president, although he has actually owned stock in the corporation only since 1957. Prior to that time, he had been associated with the business through a contract agreement. He is affiliated with several professional societies and is active in his church.

Finance

Starting capital for this business came originally from the profits of the founder's distributing agency. Financial stability came only after the company abolished its wholesale activities. Manufacturing operations were begun as a result of the recognition of the potential present in the emerging LPG industry immediately following World War II.

From the beginning of manufacturing, the two younger incorporators received regular, although not always adequate, compensation from the business. A credit rating for the business was very difficult to establish. Several times the company found it necessary to borrow on invoices and to negotiate bank loans. The executive vice president strongly believes that "no company can be started without the founders' being good stewards of money."

Present-day financial management includes monthly financial statements on complete operations of the business. The company operates on a yearly budget, which is adjusted monthly to meet the demands of production. Sales forecasting is done semiannually by the sales and service division and is reviewed by the office manager and the executive vice president. The accounting and record-keeping system is essentially self-designed; although, according to the executive vice president, "it has undergone tremendous evolution." Several unsuccessful attempts have been made by a certified public accountant to standardize the accounting system. An annual audit is made by a CPA firm. American Management Association short courses taken by administrative personnel in area universities have been beneficial in modifying the accounting system of the expanding business. The executive vice president indicated that the office division operates with an absolute minimum number of employees for the volume of work undertaken.

The company carries product liability insurance; however, no claims have been made against this protection. Several of the company's products are patented, but the executive vice president regards patent protection as merely a prestige factor to enhance the products' salability. He has little respect for patent protection from a legal aspect because of the great similarity of products patented in this general field.

Production

Production of the company is in mass quantities and by means of an assembly line operation. Production schedules are based on sales forecasts approved by the executive vice president. All production is done in anticipation of product demand. According to the executive vice president, "Occasionally the production and demand levels get 'out of kilter,' but they balance out pretty well over a year's time."

Regular spot-inspection tours are taken by quality control inspectors. The inspection department receives all shipments from suppliers. Inspection of incoming materials varies from spot checks of package contents to 100 per cent inspection. For each item produced by the company there is a test procedure outline, so that each product is thoroughly examined before shipment.

The company has had no problems in procurement; however, the executive vice president realizes that the Viet Nam War could cause severe problems in production. According to him, "Since I have no control over it, I lose no sleep about it." Materials and supplies are available within the region. The most distant location of materials is Denver, Colorado. The executive vice president believes that government regulations affect adversely the supply and costs of needed raw materials; however, this company has no choice except to pay what this businessman considers to be an inflated price.

Marketing

Sales are handled by wholesalers who take title to and possession of the products manufactured by this company. The company ships to dealer warehouses throughout the world in areas of liquified petroleum gas usage. When the manufacturing operations were begun, the company employed salesmen who sold directly to the consumers; however, the decision to use wholesale agents, rather than to expand the company's sales force, shifted the emphasis from a direct sales effort to the use of middlemen. On occasion, the company continues to sell directly to a customer of long standing, but this is done only as a service to the long-time customer. The sales emphasis was changed because the company did not want to bear the expense and/or cost of expanding its sales organizations. The expansion of the market area was also considered. This company's management believed that the control of a widely scattered sales force would be almost too big a problem. The company distributes about 20 per cent of its total production in foreign (extra-continental) markets in Asia, Western Europe, and Australia.

Sales promotion is handled by the company principally through advertising in trade journals and through publication of sales literature, including catalogs and promotional fliers. Direct mailings are used intermittently; however, the management questions their effectiveness. The company's staff does its own layout work and printing. Frequent trade show exhibits also enhance the sales promotion efforts.

The company relies on Dun and Bradstreet ratings in deciding whether or not to extend credit to prospective customers. Credit terms are 1/10, n/30. Bad debts are budgeted at $1,500 annually and approach approximately .06 per cent of total sales. For customers who do not qualify for open accounts, bank credit, sight drafts, and C.O.D. terms are used.

What the executive vice president describes as "a very extensive and time-consuming annual analysis" of product prices is made by the administrative personnel. Cost sheets are maintained for each product, and exact material and labor costs are known. Cost considerations, including an analysis of competing prices, determine the basis of the company's pricing policy. Any change in the financial status of the company is analyzed carefully to determine whether price adjustments will be necessary.

Location

The company is well located, geographically, because raw materials are readily available within the region. Most of the company's products are shipped either by motor freight or air freight on a collect basis. Freight lines provide excellent service at reasonable rates. Since the company has a world-wide market, Oklahoma City, situated approximately mid-continent and equidistant between the two coasts, provides a central location for distribution.

The company's location is in a relatively sparsely populated, suburban part of the city, although there are several other small industrial firms in its general vicinity. This location is the fourth plant site since the company began manufacturing operations in 1945. The executive vice president says that

> either the adjoining firm (owned by the president of this corporation) or this company will have to vacate its facilities within the next three years. This will be necessary because an increase of 25 per cent in our present production rate will require additional space for the company's operations.

Negotiations are presently being made to secure land for a new site. The present property on which the two companies are located is owned by the president and executive vice president and is leased to the two separate corporations.

Expansion

The administrative personnel are relatively young. According to the executive vice president, "a company of this size cannot have assistants. We do not have much depth, but there's not much we can do about it." Within the company's structure, assistants and those in immediate submanagerial positions have a working knowledge of the operations of the higher positions. Although there is no one "waiting in the wings," any single function could be performed temporarily by a number of personnel who could assume added responsibilities.

Long-term continuity of the business requires the attraction of capable younger men who can assume top management positions. Until the death of the former president, who at the time was 52 years of age, little thought had been given to perpetuity of management and ownership. Today, however, the management realizes that this is a problem that must be solved in the immediate future. Stock options appear to be out of the question at this time because the president is unwilling to divest himself of any interests in the company. No practical and easy solutions have been found.

Summary of Management Problems

1. Nature of the Business.--This company had one attempt to unionize two years ago. The employees defeated the organization attempt by a one-vote margin. The company's management is strongly anti-union and believes that no employee could receive better fringe benefits or wages from any of its competitors.

2. Characteristics of the Owner.--This business was founded by and has had the leadership of educated men. Yet, it has undergone three major changes in its principal administrative office. The individual who financed the organization of the venture had had a long and successful experience as a manufacturer's representative. He, in association with his son and his son's engineering classmate, upon their graduation from college, comprised the management team which operated the firm. In 1945, the founder died, and his son assumed the role of chief executive until his death in 1962. At that time, the remaining member of the original management team, now the executive

vice president, and a wealthy associate purchased controlling interest in the business.

3. Finance.--The manufacturing operation was begun with no capital of its own. The operation relied upon the founder's agency as a source of working capital. Financial stability was attained only after the company ended its wholesaling operations, twelve years after manufacturing activities were begun. A credit rating was very difficult to establish because of the company's weak fiscal status. Compensation for the administrative personnel, although received at regular intervals, fluctuated in amounts.

The company established its own accounting and record-keeping system. On several occasions, the firm has attempted unsuccessfully to use the services of a certified public accountant to standardize the system. The system is that of the management's own creation and has been modified by the management to fit the company's changing needs.

4. Production.--Production operations are begun after the sales forecasts have been approved by the executive vice president. The company manufactures its products in anticipation of market demand. Occasionally production outstrips demand; however, over a period of 12 months, the two counter-balance each other.

If the Viet Nam War should escalate more rapidly in the future, raw material supplies for the company's production activities would become almost unavailable for civilian manufacturing purposes. Present governmental restrictions have already elevated procurement costs and have limited material supplies somewhat.

5. Marketing.--This company has gradually shifted its market objective during the period since it began manufacturing. At first, almost all of the company's products were distributed directly to its consumers. The procedure has been modified so that distributors now handle most of the company's sales. This procedure was chosen to avoid expanding the size of the firm's sales organization needed to cover a world-wide market.

6. Location.--This company and another unrelated corporation, both of which are headed by the same president, are located on a plot owned by the

president and executive vice president. If the present growth rates of the two companies continue, one of the companies will have to move to a new location within the next three years. Although negotiations to obtain new property are in process at this time, the move will nevertheless be rather costly for the departing firm. The present site is the fourth location occupied by this company during the past 20 years.

7. Expansion.--Little consideration had been given to the long-term perpetuity of the corporation until the death of the founder's son, the former president, in 1962. The executives of the company now realize that a system must be developed by which younger men can be brought into the administrative structure of the company; however, as yet, no definite plans have been approved.

CASE 12

Nature of the Business

This business is unique among those included in this study for it has been described as a "supermarket" for a basic manufacturing commodity. In addition to selling the basic commodity, this firm pre-processes the commodity for use as component parts in a variety of products that are manufactured in the region. In 1960, this business had a 90:10 per cent ratio between sales of the unchanged commodity line and its pre-processed lines. At the present time the ratio is 65:35 per cent; and it is predicted that by 1970, sales will have completely reversed the 1960 ratio.

A local inventory of steel sheets, plates, bars, angles, and rods in maintained by the company. These are processed by the firm to the specifications of its customers. Prior to the establishment of this business, steel was typically purchased from the major users of steel in the area. This company is now the first step from the steel mill to the steel product fabricator. Thus, the company serves a special purpose in the Oklahoma City area, insomuch as previously, during periods of steel shortages, the major users retained their supply for their own production and left the small users without a supply source since they were unable to buy directly from the mills in minimum quantity car-load lots.

Production facilities of this company include squaring shears, a 400-ton press, flame cutting machine, hoists, saws, and miscellaneous hand tools. The equipment is quite costly and occupies substantial space. Manufacturing equipment is housed in a combined plant-warehouse containing 25,500 square feet of space. Offices, that occupy 3,500 square feet, appear to be about three years old. The corporation owns the land on which the business is located.

There are 36 persons employed by the corporation. The positions or jobs include the president; vice president-purchasing agent, who also serves as chief accountant; the credit manager; the sales manager; four outside salesmen; six inside salesmen; an assistant purchasing agent; three stenographer/clerks; a warehouse superintendent and an assistant;

nine machinery operators; four truck drivers; and three general warehousemen.

Since early in 1966 the employees of this corporation have been unionized. The management fought the organization attempt but was soundly defeated. The president of the company blames himself for having lost contact with his employees. The net result of unionization was the loss of several fringe benefits for the employees in order to obtain a dime-per-hour raise. Furthermore, the company had planned to give the employees a quarter-per-hour raise approximately four months after the time unionization occurred. Fringe benefits previously included profit sharing, opportunities for overtime employment, and furnished uniforms. It is estimated that employees lost approximately $1.10 per hour in benefits in order to gain a $0.10 per hour raise. When it became apparent that the union had won the election, the president turned his attention to the development of a contract mutually acceptable to both union and management.

The corporation has between 700 and 1,000 active customers who annually average $2 million in purchases. The financial status of the company is as follows: accounts receivable, $275,000; raw materials and finished (pre-processed) goods inventories, from $400,000 to $500,000; tangible fixed assets, $245,000; intangible fixed assets, $15,000; short-term liabilities, $266,000; and long-term liabilities, $163,000. Owners' equity equals $100,000 and earned surplus totals $240,000.

Characteristics of the Owner

The president of the corporation is a native of western Oklahoma. After attending a private college in a neighboring state for two years, he completed work for the Bachelor of Business Administration degree at a state university in 1941. He entered the armed forces at the outbreak of World War II and served until late 1945. While an army officer, he served in positions in both supply and combat operations.

Following World War II, he was employed by an established, well-known local manufacturer of steel products. During the six years that he was a salesman for that firm, the president realized that the steel market was not being served adequately by the major users in the area who sold steel only as a side-line operation. So in 1952, with the financial assistance of the stockholders of his employer's firm, he established his own company.

The president believes that his greatest limitation at the beginning was not having had a more adequate knowledge of initial financing and capitalization. His major in college was business administration; and from his studies, he had gained a fair comprehension of accounting principles. Consequently, his knowledge of accounting principles proved helpful as he overcame this limitation.

A strong believer in the effectiveness of active trade association, the president is a member of a past president of several business and professional organizations in the steel industry. He is also an active member of the Oklahoma City Chamber of Commerce, having served as its president. He is a continuing participant on various commissions and councils for development of the steel industry's image and of local industrialization. The president is also active in social, fraternal, and church groups. Currently he is participating in a university program of study for operators of metal service centers.

Finance

While a salesman for his post-war employer, the president developed the idea for the present business. He sought and obtained the financial support of the major investors in his employer's firm for the new venture. He had no available funds of his own to invest in the company, but he did have the energy to pursue his idea with enthusiastic vigor. The company was incorporated in Oklahoma in 1952 by a group of thirty-three investors from whom $10,000 starting capital was secured. The business operated for one year by borrowing from the president's former employer. This proved very advantageous to the new venture because of the latter corporation's ability to receive prime loan interest rates from bankers and financiers.

When the financial ledgers of the cooperating corporation were audited at the end of the fiscal year, its financiers inquired about $60,000 that the new company owed the firm secured by notes receivable. The cooperating firm's financiers called the notes, thus necessitating the recall of funds lent the new company. The president, therefore, had ninety days to raise $60,000.

The president went to a major local bank and asked to see its president. While talking to the bank president, he explained the complete situation in which he found himself. The banker agreed that, if he could raise $40,000, the bank would lend him up to $150,000. The corporate president returned to his original investors and asked for the additional funds; he secured the needed $40,000. The banker then made good his promise to make the loan.

Since the time of the loan agreement, the banker has been a friend and counselor of the president and has not only assisted in matters of finance, but has also been a very helpful management advisor. The company has at times owed the bank up to one-half million dollars. Without a close relationship with his banker, the president would have had great difficulty in overcoming two major accounts receivable catastrophies and could not have taken advantage of several timely opportunities to purchase steel at very attractive prices. At the present time, his company has unlimited credit with the bank. The president believes that a close relationship with one's banker is most vital.

The president currently owns one fourth of the capital stock of the corporation that is chartered at $100,000. The original thirty-three investors (or their heirs) still own the entire stock of the corporation. The president's compensation is a regular draw that is rather conservative. He prefers to forego much personal compensation because he believes his own personal estate can be enlarged more readily through investment in his business rather than through other channels of investment.

When establishing the business operation, the president sought the assistance of a firm of certified public accountants to formulate the record-keeping procedures. The same firm continues to prepare forecasts of expected business activity in addition to regular, required audits.

Production

The company's products are processed according to specifications supplied by its customers. The production activities, however, are highly routinized even though production is customized rather than standardized. Quality control problems in production are quite limited insomuch as the equipment is elaborate and is capable of maintaining strict tolerances. The president indicated that his customers are the best quality control supervisors. The customer receives utmost attention from the company because according to the president, "the better job we do, the better we will be rewarded" by repeated patronage.

Although the company has head and assistant purchasing agents, the president maintains close contact with representatives of the basic steel producers. The steel manufacturers have representatives in the east who carry on research and keep abreast of emerging economic trends and governmental activities which affect business. Liaison with these representatives has proved advantageous to the company because problems concerning availability of raw materials can thereby be foreseen and avoided. The company maintains a sizeable inventory of all types of unprocessed steel for its customers; however, an inventory of a particular item is not maintained for less than three customers.

Marketing

The president describes his corporation as one principally involved in sales and service. Salesmen receive additional compensation in the form of individual bonuses or group commissions only after the company quota has been met. Individual commissions are not given by the company because it is the president's sales philosophy that the salesmen are not to assume that a single customer is his own personal account. Rather, the salesmen are to represent the company and to strive diligently to give each customer the very best service possible.

An advertising agency handles the company's sales promotion efforts. According to the president, however, "the agency can be no more effective than we are capable of communicating with their representatives." In the beginning of the company's operations, the president handled all advertising. Presently the sales manager works in cooperation with the agency representatives.

The company maintains a mailing list of 1,800 active and occasional customers who are contacted at least monthly. Specialty items, such as free scratch pads, also enhance the company's marketing efforts. An elaborate catalog is produced annually at a unit cost in excess of $2.

The local firm of certified public accountants provides monthly forecasts of market expectations for the ensuing year. In addition, the corporation president maintains an informal system of research by remaining in frequent contact with supplier representatives located in Washington, D. C. It was reported that the company cannot afford to have its own representatives in the nation's capital and, therefore, has to rely on information gained from friends of the company who represent large steel producers.

Location

This company's location has always been marginal because of its inaccessibility. As the industrial activity throughout the area has become more diversified, the location has apparently been improving. The land, that was purchased for $8,000 has a current appraised valuation of $60,000. The company is located across the street from the business that cooperated with it during its first year of existence. A rail spur is available to the company that brings car-load quantity purchases directly into the manufacturing building. Plant operations occupy approximately 44 per cent of the corporation's lot that is 150' by 630'.

Expansion

The immediate expansion plans for this company include the establishment of branch installations in selected cities in which industrial development is much like that which existed in Oklahoma City when this business was founded. Long-term expansion plans under consideration include the probable sale to or merger with another organization rather than attempting to broaden the expansion objective to include the public issuance of stock. The president reported that several corporations have approached him concerning the purchase of his company provided he would sign an agreement to continue in a management position with the new organization for a specified number of years. For long-term continuity, the president has sought to surround himself with capable younger men in management positions. For example, the vice president is five years younger and the sales manager is ten years younger than the president.

Summary of Management Problems

1. Nature of the Business.--This company is a pre-processor and marketer of unchanged steel shipped to it directly from the steel mills. The ratio of sales of unchanged to pre-processed steel has been altered from 90:10 to 65:35 in the past six years. It is expected that this will have completely reversed to 10:90 by 1970. This alteration in sales objective has necessitated the acquisition of additional equipment and personnel.

The company's employees were unionized in early 1966. The management strongly opposed organization, but the employees clearly favored the union at the time of the election. The workers lost several fringe benefits under the contract established between the company and the union.

2. Characteristics of the Owner.--The president of the corporation feels that his greatest limitation has been a lack of knowledge of finance. Although he received a college degree in business administration, he believes that he should have received more

instruction in the management of capital. He also expressed his desire to major in psychology if he were to have the opportunity of repeating his college education. The president indicated that his personal business relations, especially with his employees, were strained at times due to lack of communication and understanding.

3. Finance.--The company derived its starting capital from a large group of stockholders who held interest in the president's former employer's business. The company maintained financial relations with the other firm for approximately a year after its founding, during which time the younger company used the older's prime credit status. The president had serious misgivings about the advisability of having so many investors in a small young business, but looked upon them as a necessary evil. The stockholders proved most beneficial, however, when, at the end of the first year of operation, the cooperating firm's creditors called in their notes. Through the establishment of relations with a banker and through additional investment from the stockholders, the company managed to survive the financial straits of that period. The president has relied heavily upon his long-lasting banking connection for both financial and management counselling.

4. Production.--The company's production of pre-processed steel is on a custom basis. However, highly-routinized operations and precision equipment make possible economical and efficient production.

Through maintenance of liaison with major steel manufacturers' representatives in Washington, D. C., the company obtains information useful in maintaining an adequate inventory of basic steel products for the area.

5. Marketing.--The company's sales force works on a quota, commission, and bonus basis. Only after the established sales quota is reached do the salesmen receive additional compensation in the form of bonuses or group commissions.

6. Location.--The company's location has been described as marginal because of its inaccessibility. The property, that is owned by the corporation, is located in a lightly industrialized area of Oklahoma City relatively near a major thoroughfare which has recently undergone improvement. The business occupies

less than half of its 150' by 630' lot. The appraised valuation of the lot has increased over seven-fold since the founding of the business fourteen years ago.

7. Expansion.--Immediate expansion plans for the business include the establishment of similar branch installations in selected cities throughout the country. Long-range plans, however, call for the eventual sale to or merger with another organization. Several businesses have already approached the president about these possibilities.

CASE 13

Nature of the Business

This business is a general partnership that was organized on a full-time basis in 1962. Its principal products are machine-tooled parts, most of which are custom manufactured according to the specifications of customers. In addition, this firm has recently developed a specialized product line of valves and component parts that is manufactured under its own brand name. Because of the development of its proprietary line, the company has been reclassified as a valve manufacturer; and its workman's compensation rate has been reduced, thereby providing an additional margin between cost of production and sales price.

Physical facilities owned by the partnership are located in the extreme southern section of metropolitan Oklahoma City. The plant, that was constructed in early 1966, contains 7,500 square feet of space which are divided among production, storage, and office space. Offices and rest areas occupy 1,200 square feet.

A variety of metal-working equipment is used in this company's operation. One of the partners pointed with pride to the original turret lathe with which operations were begun. More elaborate and modern turret and engine lathes and automatic milling, screwing, and drilling machines have supplemented the original piece of equipment. The newest piece of equipment is a programmed automatic grinding machine.

Twelve full-time employees, in addition to the two partners and one partner's wife, are active in this business. Two individuals work on a part-time basis, bringing the work force to a total of seventeen. Personnel are divided according to the following classifications: two administrative, one clerical, and the remainder are in production. One of the part-time employees is a mechanical engineer who works during the evening hours. He is responsible for preparation of engineering drawings of the company's products. The partners have divided between themselves the functional responsibilities of the administrative and production divisions.

The employees of this business are not unionized, and there have been no attempts to organize a union. Although both partners have been members of unions in the past, it was reported that they would both strongly oppose unionization of their employees. They mentioned several examples in the Oklahoma City area as typical of difficulties encountered when "small business has dealt with big unions." Most of the employees have been members of unions at previous places of employment and apparently have no interest in once again becoming members of a union. Fringe benefits provided employees include statutory workmen's compensation, paid hospitalization insurance, Christmas bonsues, two fifteen-minute breaks daily, and an annual two-week paid vacation. It was pointed out that, although the wage scale may not be quite "up to par" with the industrial average in the area, employees work a 50-hour week and, therefore, earn time-and-a-half compensation for work in excess of 40 hours. Periodic raises are also given. The partners feel that the benefits provided their employees, such as vacations and rest breaks, pay for themselves in the quality of products manufactured.

The business has approximately 30 customer organizations to which it sells on a regular basis. One customer organization has provided, in the past, up to 90 per cent of this firm's annual sales volume which approximates $185,000. It was reported that sales have doubled in the four years which have elapsed since the partnership was established on a full-time basis. Typical asset valuations are as follows: accounts receivable, $15,000 to $17,000; raw materials and works-in-process inventories, $5,000; finished products inventory, $5,000 to $6,000; and tangible fixed assets, $150,000, of which approximately $47,000 are invested in the real property and buildings. Short-term liabilities approximate $8,000 per month and long-term liabilities equal $78,000. Owners' equity is approximately $53,000 on a cash basis. It was pointed out that the raw materials and works-in-process inventories would be larger if this firm had to purchase all of its raw materials. The principal customer organization furnishes the basic castings that are machined into finished products by this firm's operations.

Characteristics of the Owners

The owners of this business have been friends since boyhood. They grew up approximately one block from each other; were graduated from the same high school, although a year apart; and have shared similar work experiences. It was interesting to the interviewer to observe that each partner was employed during high school by another of the organizations in this study. One of the partner's wives was employed for a time for still another organization included in this study. Her former employer is this firm's principal customer. One partner completed one year at a state college, while the other partner did not attend college.

The partners' initial contact with machine shop operations occurred while they were both attending high school. Each participated in a new technical education program that was being developed at that time. The partner who has primary responsibility for the administrative division gained valuable office experience in posting, billing, and inventory control procedures while working for a paper company as an order clerk. The partner who has primary responsibility for the production division had several years' experience with a large local manufacturer of iron products, another machine shop, and a local plant of a nationally-known corporation.

Although the partnership was founded on a full-time basis in 1962, it had been established as a part-time venture in the winter of 1958. Explaining their ability to get along well together, the partners pointed to their common interests in the machine shop industry, similar experiences and backgrounds, and their life-long friendship.

Finance

The purchase price of the original turret lathe was $1,400 when the business was established on a part-time basis in 1958. The partners used credit at a local bank to finance the purchase of the lathe. The loan was repaid promptly, thereby establishing a good credit rating for the businessmen. The banker who approved the initial loan has continued to serve as financial counsellor and lender to the partners. During the first four years of operation, the partners worked nights and weekends in order to pay off their bank loan as well as to secure additional equipment.

In 1962, the partners were influenced by a customer to establish their business on a full-time basis. A promoter had sold the customer on an idea for a new product that supposedly could be produced in mass quantity. The partners quit their jobs and began full-time operation; however, almost immediately thereafter, the entire promotional scheme failed. It was reported that, for the next six months, if one of the wives had not been employed as a full-time bookkeeper, the families "would have starved." The partners worked diligently, and sales volume gradually increased. In early 1963, it became necessary for them to hire their first employee.

Costs were held to a minimum because the operations were housed in one partner's father's garage that was furnished rent-free. Twice the garage was enlarged and an additional building was constructed to accommodate the expanded production activity. During the early months of full-time endeavor, the partners paid their obligations when due even though personal compensations for themselves sometimes had to be foregone. The result of their prudent fiscal management has been a continually improving credit rating. The capital required for acquisition of the present plant site and for the construction of the new plant was secured on a fifteen-year mortgage.

A local bookkeeping firm maintains all company records and prepares monthly profit-and-loss statements. In addition, the bookkeeping firm prepares tax and other financial reports of an annual nature that are essential to the management of this organization. The only record maintained in the company offices is an accounts receivable ledger. All other records are kept at the bookkeeping firm. The partners reported that they have operated what has been a "hip-pocket" operation; but because of the high quality of service by the bookkeeping firm, few problems involving fiscal management have been encountered. In the opinion of the interviewer, however, this business has reached a size that warrants periodic re-evaluation of its record-keeping systems. This firm does not presently receive an annual audit report which, in the opinion of the interviewer, should be a prescribed procedure.

The partners are paid a limited regular drawal and annually withdraw money for payment of income taxes. Retention of earnings within the partnership has been stressed and is undoubtedly a contributing factor to its growth. The wife of the partner who heads the administrative division prepares payroll records and reports and keeps the accounts receivable ledger. Because of the nature of the products that are manufactured by this business, extensive product liability insurance is carried; however, no claims have been made.

<u>Production</u>

It was obvious to the interviewer that production has received the major attention of both partners. This is understandable since both partners have had a background of interest in production work and have also had training in production work.

Continuous production operations include the machining and the assembling of parts into completed units. The proprietary product that is manufactured by this business is a standard product, yet this firm is the only producer in the Oklahoma City area; consequently, a competitive advantage is realized. Since quality specifications must be controlled rigidly, the concept of quality control within this business is that each production employee is responsible for the quality of his own work. The personnel have accumulated extensive experience in machine shop operations, and it is a matter of personal pride for them to accomplish quality production. Gauges are readily available to personnel to examine the precision of their work. In addition, the partner who assumes primary responsibility for production conducts spot checks of items produced.

Production problems have been limited and minor in nature. The principal production problem that has been faced resulted from the inadequate space available at the former location. The new plant has alleviated this problem completely.

Both partners share the procurement responsibilities for the operation. Suppliers of this business are scattered throughout the nation; however, the principal supplier of steel is located in Tulsa. There have been no major problems resulting from procurement practices. Both partners expressed concern about recent price increases for stainless steel and cadmium. Although an outside organization handles this firm's cadmium plating work, a sharp increase in costs affects the unit cost of this firm's products.

Marketing

The partners described their marketing operation as one that is "really weak." In the opinion of the interviewer, it is almost nonexistent in terms of the usual concept of a marketing organization. For the most part, the partners rely upon their customers' coming to them. The partner who is primarily responsible for administrative affairs reported that "what marketing efforts there are, I handle." Recently the firm appointed a manufacturer's representative to cover the state of Oklahoma, and a Louisiana wholesaler has been franchised to distribute the firm's proprietary line. In the opinion of the interviewer, marketing will necessarily require increasing attention from the management of this organization.

There has been no advertising done, and very little sales promotion has been made by this organization. The single sales promotion effort involves the publication of a technical product specification sheet that is secured from a local printer. The drawings and technical copy were prepared by the part-time mechanical engineer.

Upon the receipt of an order from a new customer, contacts are made with local manufacturers, supply houses, and the partners' banker who help determine the reliability and payment record of the prospective customer. Whenever the prospective purchaser receives an affirmative recommendation, credit is extended, and production is begun. If a customer defaults in its payment, the firm no longer extends credit to it. The conservative credit policy practiced by this organization undoubtedly is the result of the very costly experiences encountered when full-time operations were begun. The firm's pricing policy is essentially a cost-plus policy, and billing practices involve a 1/10, n/30 discount basis. The proprietary line enjoys a higher markup than is realized on custom-produced parts because of the higher risks that are involved.

Location

Although the original location of this business was somewhat small, it did afford certain advantages to the operation at a time when the working capital was severely restricted. The property was provided rent-free. Utility costs were the only locational expense involved. The original location in the Capitol Hill region of Oklahoma City was a 14' by 24' garage behind the home of one partner's father. The garage was expanded twice by the partners. In addition, they built a small metal storage building adjacent to the garage.

It was obvious by the beginning of 1966 that the former location had become inadequate to accommodate the increased demand for production space. In January, 1966, a 5 1/3 acre (330' by 620') site in extreme southern Oklahoma County was purchased. It is expected that the new location will be adequate for many years to come.

Expansion

A new production plant was completed in May, 1966. The partners reported that they have a fifteen-year loan on the building and that they were fortunate to have secured the loan prior to the "tight money" market which has developed in recent months. The location is somewhat inaccessible in terms of employee convenience; however, it is located adjacent to a railroad right-of-way and is not far from a major interstate highway. Both partners expressed dismay at learning that natural gas was not available to the location. Propane gas has been the answer to this minor problem, and the partners believe that it will be only a matter of time before natural gas will become available.

Recent expansion of physical facilities should prove adequate for the needs of this business for several years. Only a small portion of the property is currently being used, leaving much room available for expansion. Although truck freight has proved adequate because of the local nature of the market, a railroad siding could be added should it be needed. Both partners are in their early thirties as are most of the production personnel of this business, consequently little concern has been given to the long-term continuity of the enterprise.

<u>Summary of Management Problems</u>

1. <u>Nature of the Business</u>.--This partnership was organized as a full-time venture in 1962 as a result of a promotional scheme that held unusual expectations, but which failed to materialize. Sheer persistence of the partners and their willingness to forego personal compensation for six months enabled this business to survive. Fortunately, the wife of one of the partners was employed as a bookkeeper, and her income supported the two households during the initial months. Moreover, the organization for which she was formerly employed has become the principal customer of this business.

2. <u>Characteristics of the Owners</u>.--The founders have had extensive practical experience in machine shop production. Both are high school graduates, and one completed a year of college. Each partner lacks management and business experience. They have relied upon the counsel of their banker, suppliers' representatives, and former employers regarding major management and business decisions.

3. <u>Finance</u>.--This business was "started on a shoestring." Production equipment at the outset was financed by a bank loan. By the time the partners commenced full-time operations, the production equipment mortgage had been paid. Rent-free space was available, and the only overhead costs were for utilities.

Short-term obligations have always been paid promptly, thus resulting in a favorable credit rating with suppliers and the banker. Earnings have been reinvested. The partners have relied on limited, regular drawals. Bank loans have been used as needed, and a good working relationship has been developed as a result.

The partner's wife's knowledge of bookkeeping and the services of a bookkeeping firm have been instrumental in providing adequate and essential records and reports.

4. Production.--Because of their common interests and backgrounds, the partners have devoted most of their attention to production. Until recently, the principal production problem resulted from quite limited space. However, since the firm has occupied its new plant facilities, this problem has been eliminated.

5. Marketing.--Marketing has been practically nonexistent. Management is becoming aware of the opportunities and advantages that a well-organized, preplanned marketing effort provides.

6. Location.--This business was located originally in the family garage of one of the partners. Although the facility was expanded twice, growth in early 1966 forced the partners to consider relocation. They were reluctant to do so because they had enjoyed the use of the rent-free quarters.

7. Expansion.--This business has recently undergone a major expansion program. In May, 1966, it moved to a new facility which is owned by the partners. The new plant includes 7,200 square feet thus making the new plant much larger than the former facility. The partners did not learn until their new building was almost completed that natural gas is not available to the location.

With the addition of a proprietary line of a standard product, this firm has taken the initial step to overcome its complete dependence upon a major customer.

CASE 14

Nature of the Business

This business involves a parent corporation and a wholly-owned subsidiary. The subsidiary firm is the manufacturing organization, whereas the parent firm is a sales organization. The sales organization was begun in 1961 as a leasing corporation, that was a secondary venture of the founder who had controlling interest in two state distributorships for a national manufacturer of automotive air conditioning units. The manufacturing organization was begun in late 1962.

Annual sales of the manufacturing company now exceed $400,000. Although the products have custom features, the product line may be described as proprietary. Over 600 customers throughout the nation and abroad distribute and install the company's product. Export sales currently constitute less than 3 per cent of the total sales volume.

Fiscal operations include: accounts receivable, $65,000; component parts inventory, $55,000; finished goods inventory, $55,000. During periods of peak seasonal activity, the combined inventories approximate $250,000. Peak-season short-term liabilities exceed $100,000; but in the off-season, short-term liabilities seldom exceed $10,000. Long-term liabilities are $89,000. Capital stock issued is valued at $138,000 of a corporate limit of $500,000 at one dollar par. A current operating deficit of $68,000 is expected to be eliminated during the next two years. The firm has operated at a deficit since 1963, at which time it acquired extensive manufacturing equipment and established research and development operations.

This corporation employs 30 individuals. The president, who has a controlling interest in several other corporations, recently purchased the controlling interest in this business. He maintains a laissez-faire attitude toward the management of this enterprise. The founder and former president of this business is the present executive vice president and general manager. He is ably assisted by the vice president for manufacturing, who, having been with the organization from the beginning, also serves as chief engineer. It was he who designed the two prototype units of products for which mechanical patents have been granted. Other personnel include an office manager, bookkeeper, secretary, draftsman, production foreman, plating foreman, shipping clerk, and assembly personnel. The employees of this business are non-union, and there have been no attempts to organize them.

The corporation is housed in a leased facility in the northwestern quadrant of the Oklahoma City metropolitan area. Physical facilities include 11,000 square feet for production and warehousing and 800 square feet for offices. The corporation has an option to buy the property on which it is located. Area adjacent to the property is available for physical expansion if needed.

Production equipment includes metal machine shop tools, such as, power shears, blades, sheet metal working equipment, cutting torches, precision inspection apparatus, painting and drying installations, and stamping equipment. Office furnishings appear to be relatively new, but they show evidence of hard use. The overall appearance of the offices and production areas suggests that the plant maintenance is not emphasized.

Fringe benefits are limited to paid holidays and a partially-paid group insurance program. Key personnel do, however, receive one-half day per month vacation time that may be accrued to a two-week maximum.

This firm operates in an industry that is relatively young; its principal growth has occurred since 1955. The most significant challenge that has confronted this business has been the problem of securing adequate working capital for expanding production capability to meet a pent-up demand.

Characteristics of the Owner

A native Oklahoman, the founder of this business spent much of his spare time as a youth working in his father's sheet metal and plumbing business. After graduation from a state college, where he majored in business, the founder served in the navy for six years as a welder. Following his discharge he returned to his home town where he started a commercial air conditioning and plumbing business. As a side line, he became franchised dealer for a west coast manufacturer of automobile air conditioners. In 1955, he left Oklahoma to work in California where he was a journeyman plumber. After a year's time, he was approached by the air conditioning firm for which he had been a franchised dealer, and he accepted employment as a branch manager. However, becoming dissatisfied with California, he moved to Oklahoma City in 1957, where he served as a service engineer for the same organization. In 1959, he bought the Oklahoma City installation and in the following year acquired the Kansas City branch that was organized as a separate corporation. In 1962, the Oklahoma City corporation was established as a wholly-owned subsidiary of the parent sales organization that had been chartered the previous year.

The founder of this business has served in diverse capacities within the industry--both as a distributor and as a service engineer. These dual experiences and a mechanical aptitude have proved very useful to this businessman. He reported that he had a competitive advantage over other manufacturers who had not had the experiences of a distributor. He knew both the needs and demands of the market as well as the mechanical concepts of air conditioning.

This businessman participates in several civic and social activities in the community. He is a member of the Chamber of Commerce, the Kiwanis Club, and several other groups; and he serves as a member of the official board of his church.

Although not a major stockholder, the vice president for manufacturing has been a major contributor to the development of the organization through his knowledge of production and his engineering of product designs that have been patented. He had previously worked for a principal competitor for nine years.

Finance

Initial capitalization for this business was derived from two main sources. The first source was that invested by the founder. He had borrowed $5,000 from a bank in 1959 in order to initiate an organization for leasing mobile air conditioning units. Capital assets and revenue from that business were utilized as his investment in this business. The second source was a small group of carefully selected individuals who were invited to invest in the corporation which was chartered for $25,000. The charter has been revised to an authorized capital stock limit of $500,000, of which $138,000 have been issued at one dollar par.

The founder was convinced that inadequate capitalization has proved to be the most difficult problem faced by this firm. Extensive bank loans have been used; however, the debt ceiling has been too low to secure the amount of working capital which has been needed. In January, 1966, the controlling interest (51%) in this business was sold to a competing organization which is headquartered in Dallas. The founder, and now executive vice president, retained 26 per cent of the stock which had been issued. By contractural agreement, the new alignment of stock ownership must be maintained as new stock issues are made, provided stockholders wish to retain their proportionate ownership. The reported reason for sale of control was that a sizeable increase in working capital was absolutely essential. It was believed that the sale of controlling interest was the only way whereby the necessary working capital could be secured.

The founder established the accounting system that is used by this firm. He reported that his collegiate education included course work in accounting. A full-time office manager/bookkeeper prepares monthly statements and reports for members of the board of directors. An outside certified public accounting firm prepares an annual audit of the corporate records.

Management regrets that it made a grievous oversight by not entering casting molds and dies as capital assets. The net effect of this error was a reduced statement of net worth which had a direct bearing on working capital ratios and corporate credit capacity. On the basis of this credit capacity, a banker could not make a loan; however, the controlling competitor's representative could see a strength in the company's products (especially since they are protected by two mechanical patents) that allowed investment of his firm's funds in this company. The strength was not apparent in the company's fiscal records because of the failure to list molds and dies as capital assets.

This business has encountered little direct difficulty in collections; however, it has operated under a policy that has placed the firm in the role of financing customers' accounts through postdated billing practices. The founder now realizes that this practice, that was adopted in order to build a large clientele of distributors, required a financing role for which this business was not capitalized.

The founder has always received a regular salary. Under the current organizational procedures, he is paid a regular salary plus an incentive bonus. Payroll and tax records are maintained by the office manager/bookkeeper.

The company presently retains all earnings within the organization. The executive vice president stated that stockholders would receive no dividend until the business' deficit is recovered. When the deficit is eradicated, then one third of the earnings will be distributed to the stockholders; one third, to key personnel; and the remaining one third will be retained within the company.

Product liability insurance is carried by the corporation although no claims have ever been made. The business also maintains complete insurance coverage on all equipment.

Production

Products of this corporation are manufactured in an assembly line process under the supervision of the vice president for manufacturing/chief engineer. Because of this individual's background and competence, few problems in production have arisen.

Production scheduling is rigidly controlled because of the necessary risks involved in manufacturing a product whose sales rely to a great extent on the prevailing weather conditions during the summer months. Product quality is guaranteed by the corporation by means of elaborate inspection devices and inspection stickers.

The major problem encountered in production is the procurement of copper coils necessary for the production of refrigeration equipment. The supply of copper has been curtailed as a result of current international developments.

Although the business has a seasonal peak in sales, warehousing creates no overwhelming problems. The firm ships its products, in most instances, directly to its distributors' warehouses while post-dating its invoices. Some crowding of inventory storage does occur; however, it is alleviated by renting warehousing space.

Motor freight--and in the peak seasonal sales period, air freight--provides rapid and efficient service. The business at times uses bus and parcel post services for small parts. Freight is sent f.o.b. Oklahoma City with a three per cent add-on markup to cover transportation costs.

Marketing

The executive vice president is the only salesman. The corporation does, however, maintain factory representatives in major cities throughout the nation, such as, Detroit and New York.

The business participates in both national and international trade shows on a regular basis. In the near future the corporation will enter a nation-wide advertising campaign through trade journals and equipment magazines to supplement its direct mailings and annual catalog. Direct mailings, the catalog, and other company publications are prepared by the draftsman and are printed entirely within the organization. The corporation is also seeking to expand its international market in the next year from the present three per cent of total sales to approximately ten per cent.

The pricing policy involves the use of a standard formula of cost times 4.21. This factor was determined at the outset of the business venture and has been used since that time. Distributors receive a 50 per cent discount on the list price of parts. The credit policy of the company will, by necessity, be tightened in the next year through guaranteed consignment of merchandise to distributors and through discounting for cash payments. This will relieve the corporation of having to finance long-term billing out of its principal stockholder's capital reserves.

Sales promotion efforts are concentrated in direct mail campaigns and through conspicuous product labelling. The firm owns a lithograph press that is used in production of sales promotion literature, parts lists, and installation instructions.

Location

Only one facility has been used by this organization since manufacturing operations were begun in 1962. Production, warehousing, and office space are more than adequate to meet current demands. The site of the plant is desirable since it is readily accessible to suppliers and major transportation arteries. Motor freight is the accepted mode of physical distribution of the company's products. Moreover, a major competitor is located a short distance from this business. The corporation has an option to buy the property that it now leases.

The metropolitan Oklahoma City areas has been a good location for this business because there has been an underdeveloped market for the company's products. The locational advantages that were apparent in the beginning continue to be operative today even though the firm has developed a national market. Insomuch as major automobile manufacturers have begun to purchase this corporation's products, the advantages of Oklahoma City location may become less significant.

Expansion

During the past two years, the firm has supplied post-factory installation units for a major automobile manufacturer. Although the contract will expire within a short period, it is expected that a new contract will be consummated. Preliminary negotiations have already begun. In addition, another major automobile manufacturer has approached this firm to investigate its capability of producing post-factory installation units for their automobiles. Although small in volume, export sales have been increasing. The manufacturer of a well-know foreign automobile has expressed interest in this company's products. A recently-appointed exporting agent secured the interest of the foreign manufacturer.

The controlling corporation has not yet developed a stated policy concerning long-term expansion of the operations. With the exception of appointing a young man as service engineer to develop a service organization, long-term expansion plans have not been formulated.

Summary of Management Problems

1. Nature of the Business.--The major development of the industry, of which this business is an integral part, has occurred within the past decade. As is typical in developing industries, suppliers are oftentimes unable to fill this firm's orders promptly.

2. Characteristics of the Owner.--The founder of this business has had a varied experiential background which prepared him for management of this kind of business. His work experiences have involved the sale, the production, and the service of products similar to his. His formal higher education provided him with a knowledge of the principles of business administration and accounting.

3. Finance.--The most pressing problem faced by this business has been inadequate working capital. Although extensive borrowing was utilized, the firm's debt ceiling was too low to permit the acquisition of sufficient working capital to take advantage of market opportunities. A controlling interest in the business was recently sold to a competing organization in order that the needed working capital could be secured.

A deficiency in the company's accounting system resulted from the failure to capitalize product-casting molds and dies. Had a different accounting system been used, the necessity of divesting controlling interest might have been forestalled.

4. Production.--Production problems have been limited primarily because of the competence of the vice president for manufacturing. However, the business has experienced some difficulty recently in the

procurement of copper products that are essential to manufacturing operations. In addition, since this is a seasonal business, precise production control is most difficult at the time when peak sales opportunities are present.

5. Marketing.--Long-term, or post-dated, billing practices which have been followed by this firm have proved detrimental. The practice was, in effect, placing this under-capitalized firm in the position of financier of its customers.

6. Location.--Only one facility has been used by this business since it was organized. It has more space than is currently needed, therefore, room for growth is available. However, as more of the firm's sales are made to major automobile manufacturers, the Oklahoma City location may become less desirable because its market will no longer be strictly a local one.

7. Expansion.--The current level of economic activity has been inadequate to yield a profit. Accumulated deficits have been decreasing, but not so rapidly as deemed necessary. The newly acquired working capital position is expected to offset this problem by the end of the current fiscal year; in fact, a profit is projected.

CASE 15

Nature of the Business

This business is a corporation that was organized in 1956 with the initial charter approved for a stock issue of $500,000. The company's principal products are replacement parts for front-end suspension systems in automobiles. It owns several mechanical patents and one plastic application patent for the specific use of plastic and nylon in bushings for automobile suspension systems. The firm's physical facilities include a production plant at the headquarters location that contains 25,000 square feet. A newly-acquired tract of land has a building under construction on it, that will have 22,000 square feet. Open warehousing space is contained in the production facilities. About 3,000 square feet are utilized as office space. Production facilities include typical equipment for metal-working operations, such as lathes, grinders, and drills. Also, special equipment is used for molding and shaping plastic and nylon parts.

The company has approximately 290 employees. The organization is divided into several divisions, among which are accounting, engineering, production, marketing, and advertising. Approximately 80 persons are employed by the sales division. The employees are not unionized, and there have been no attempts to organize them. Fringe benefits provided employees include health and life insurance, for which the company pays one half of the premium.

The corporation has a nation-wide market including all 50 states and the Dominion of Canada. Annual sales approximate $4 million. Accounts receivable are $600,000; raw materials inventory, $60,000; works-in-process and finished goods inventories, $300,000; tangible fixed assets, $1 million; intangible fixed assets, $30,000; short-term liabilities, $200,000.

The founder serves as president and board chairman of the corporation. Vice presidents head the several divisions within the organizational structure and are directly responsible to the executive vice president. Other administrative personnel include a general administrative services manager, who also serves as corporate secretary-treasurer; the controller; and a general counsel, who also serves as assistant secretary-treasurer of the corporation. There is a 15-member board of directors that includes the officers in its membership. There are approximately 130 stockholders, with 20 of them owning controlling interest.

Characteristics of the Owners

The founder started this business as a one-man, backyard operation in 1954. In 1956, it was incorporated at $1,000, with investment capital being derived from $500 personal savings and a $500 bank loan. The incorporators were the founder and two relatives.

In 1959, the corporate charter was amended to include a larger group of investors (12 relatives), and a general reorganization occurred. Since that time, capital secured from stock sales and loans from banks have increased the corporation's net worth, thereby enabling it to expand. The background experiences of the investors who are active in the business organization are greatly varied. The president has only a fourth grade education (although his initiative and mechanical aptitude undoubtedly far outweigh the apparent disadvantages of his lack of formal schooling), while other investors have varying levels of education. Two have degrees in engineering; several have done graduate work; and one holds a doctorate degree. The new investors were not all close relatives. Some were distant cousins, nephews, and nieces. Because of the varied backgrounds of the individuals in this group, the company has had no major problems resulting from lack of experience. Within the group are two certified public accountants, a lawyer, a former university professor of engineering, and several others of similar caliber.

Finance

As has been noted, the starting capital for the business under the one-man operation, that existed from 1954 to 1956, was $1,000, of which $500 was borrowed and $500 was derived from personal savings. The capitalization at the time of reorganization in 1959 came principally from savings of the individuals forming the expanded corporation. The new corporation involved adequate preplanning in writing on the part of the incorporators. This is evidenced by the fact that it took approximately four months for the company to become established because of the technicalities involved in planning the method of operation and other administrative details. Since that time, capital has been acquired through additional stock sales to the initial incorporators on a first-choice basis, to other individuals in a limited amount, and also through bank loans. Capitalization during periods of expansion was not always easily obtained; nevertheless, the company has progressed to its present stage at which expansion again is taking place.

Concerning financial management of the business operation, the system was established by the controller who is a certified public accountant. Prior to 1959, the founder had relied on a local certified public accountant firm for his financial statements. Elaborate analyses of sales forecasts and monthly profit-and-loss statements are prepared by the personnel in the accounting and marketing divisions. No annual budget is presently used; however, it is anticipated that within at least two years an annual budget will become necessary. All financial statements, payroll and tax records are prepared by the accounting division. Analysis of sales forecasts by the marketing division results in the initiation of production orders which, in effect, establish the operational pattern for the entire business. Very few problems have been encountered regarding accounts receivable. The company discounts on a 2/10 proximo basis. Less than one per cent bad debts are encountered. The officers of the corporation are salaried and do not receive stock or profit-sharing compensation. They are treated essentially as any other employee, even though they own an interest in the corporation. The firm operates on an earnings retention program and does not pay dividends to its stockholders. The corporation's products are protected by liability insurance, and approximately 60 per cent of the total plant physical facilities are covered by property insurance.

<u>Production</u>

This company's products are manufactured on an assembly line basis. The assembly line system has been instrumental in the development of cost economies in production. Fortunately, the production vice president had had extensive experience with assembly line techniques and organization. The only major difficulty that has been encountered resulted from the lack of capital to invest in the complete system. The system was developed on a gradual basis in order that available funds would not be exhausted. Strict production control policies are followed. It was reported that the corporation is just now reaching the size at which it can utilize maximum efficiency from its production operations.

Procurement problems occasionally result from the difficulty of obtaining steel forgings, due to the strain upon the nation's supply of steel caused by international affairs; and, also, the high cost of raw cadmium that is used in the company's plating operations. The cost of cadmium has necessitated conversion of the plating operation from cadmium to zinc.

The corporation maintains five regional warehouses in major industrial centers throughout the United States. The warehouses serve as distribution centers for both wholesale and retail sales. Major national retailing organizations sell this company's products through their automotive parts divisions. This firm relies principally upon motor freight for the transportation of its products.

Marketing

The firm's marketing and advertising staffs total 80. Sales territories are divided essentially according to the state and province boundaries of the United States and Canada. The exceptions are heavily-populated, industrial areas that demand more extensive representation than areas of less population density and industrial activity.

Trade journals are the principal media used for this firm's advertisements. Occasionally this organization is represented at trade exhibitions; however, it relies primarily upon its own sales promotion efforts that include extensive direct mail campaigns and the publication of its own quarterly magazine. The magazine, as well as sales promotion literature, is printed by company owned and operated facilities. It was reported that the extensive printing operations are maintained basically for convenience and quality control of printed literature, not for the sake of economy. Six full-time employees operate the printing equipment, and two commercial artists prepare layout and copy.

This corporation operates a sales training school for dealer representatives that has proved very popular for representatives coming from throughout the nation and Canada to attend the institute. Management credits much of the firm's growth to the success of the training program.

Location and Expansion

This firm has been in the same location since 1959, although the facilities have been expanded considerably. During periods of expansion, the business has been continually faced with the problem of securing land for expansion. Presently, the corporation owns properties at four different locations in Oklahoma City: (1) a recently-acquired tract of ten acres in the southeastern part of the city on which new production facilities are being constructed, (2) the home office location of three acres in the southern periphery of the city, (3) the training center, also in the southern part of the city, (4) the plating division located near the training center. As a result of the development of the new production plant, the marketing and advertising divisions will be able to occupy space in the headquarters that has previously been occupied by production. Under the new arrangement, the corporation will occupy two properties rather than four. The two smaller properties will be sold as soon as the new production plant is completed.

The creation of the concept of a national headquarters is inherent in the expansion plan. Definite efforts are being made to attract capable younger men into the organization in order that the long-term continuity of management can be assured. Management now realizes that an internal management training program is as essential as a dealer service sales training program. The director of training, who is a former university dean, has been given the challenge of developing a management training program that is patterned after the well-regarded dealer service sales training program. When the management training program becomes operative, a mandatory retirement age will be established for administrative personnel.

Summary of Management Problems

1. Nature of the Business.--Through the use of a basic product innovation, for which an application patent has been granted, this business has grown in a span of twelve years from a one-man, back-yard operation to a progressive, "selling" organization with 290 employees.

This business has evolved from a sole proprietorship to a close-family corporation. The corporate charter, that was granted in 1956, was amended in 1959 to enable additional relatives to invest in the business and to become active in its management. The basis of the change in organizational scope was the application patent that increased market demand and necessitated substantial changes in adminstrative procedures and competencies.

2. Characteristics of the Owners.--The founder of this business had little formal education; however, he possesses a mechanical aptitude and a quick mind that have been instrumental in his overcoming the inadequacies of his educational background.

Administrative management personnel, who were attracted to this business by the founder, possess a combination of qualities and experiential backgrounds which few small businesses enjoy. It was interesting to the interviewer to observe the obvious respect that the several well-educated executives have for their less formally educated president.

3. Finance.--The parlaying of a $1,000 investment into a $4 million gross sales operation in the short span of twelve years is remarkable.

Although the firm has always operated under a policy of earnings retention, bank loans have been used to supplement working capital whenever needed. In addition, long-term loans have been secured in order to purchase the properties which are owned by the corporation.

This business has consistently purchased product liability insurance because of the nature of the products manufactured.

4. Production.--Principal problems involving production have centered around the inability to implement mass production operations completely at one time. Rather, the implementation occurred over an extended period of time as working capital resources became available.

The basic commodity necessary for plating operations has had to be changed from cadmium to zinc because the price of raw cadmium has risen to the point where it is no longer economically feasible to plate with it.

5. Marketing.--Management thinks of this business as a "selling" organization. Major marketing problems which have been encountered include the development of a continental (North American) company-employed sales organization and of a sales promotion capability which resulted in the establishment of an extensive printing department as part of the advertising division. The printing department was developed because of the need for quality control of printed materials and the corporation's quarterly magazine.

A unique feature of the marketing division is a training institute, that, according to management, has made a substantial contribution to the growth and development of this business since a former university dean assumed the role of supervisor of training.

6. Location and Expansion.--A constant challenge to this business has been the acquisition of

additional space in the area of the plant and home office location. Current expansion involves the construction of a new plant that will house total production operations and will result in the elimination of one of the present four locational sites. The training center will be moved to the home office location upon completion of the production facilities, thus eliminating another of the four site locations.

Several of the administrative personnel are approaching retirement age, and a concerted effort is being made to attract capable younger men into the organization. A management training program is being developed for the more promising younger employees. It is expected that these employees will be ready for promotion to key positions when a mandatory retirement age is established in the near future.