What People Are Writing About

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BOOKS

The Enterprising Man by ORVIS F. COLLINS and DAVID G. MOORE with DARAB B. UNWALLA, *Michigan State University Bureau of Business and Economic Research*, East Lansing, Michigan, 1964, 254 pages, $6.

This Small Business Administration-sponsored research study presents a readable if somewhat Freudian profile of the "typical" American entrepreneur.

To find out what kind of men succeed in establishing a new enterprise and what they go through to create and maintain a new business, Michigan State University researchers picked a random sample of 110 small Michigan manufacturing companies established between 1945 and 1958, most of them with more than twenty employees, and subjected their entrepreneurs to depth interviews and projective psychological tests. They found these small businessmen to be quite different—in family background, in work experience, and particularly in personality—from the organization men of big business.

Actually, as the authors note, this is hardly surprising. The functions of the entrepreneur and the organizational executive are quite different. The executive rises to the top of an established structure by means of technical proficiency and social skill. His success depends heavily on his having a positive attitude toward authority. He sees his role as one of leadership.

The entrepreneur, on the other hand, builds his own structure, and he builds it as a business not a bureaucracy, essentially by making deals. He sees his role as that of an operator rather than a leader.

Most of the entrepreneurs interviewed in the study were not cut out for success in climbing a corporate ladder. Many of them started out with distinct handicaps. A fifth of them were immigrants to this country, and 35 per cent were sons of immigrants. Only about a fifth were college graduates, and more than a third had not graduated from high school. A fourth of them were sons of owners of small businesses, but most of them came from the working class. Almost two-thirds of them described their early family lives as poor or even underprivileged.

But the entrepreneurs' chief bars to success in the world of organizations were psychological rather than social. Their chief psychological characteristics were a lack of interest in social mobility and a rejection of authority. Many of them quit school because of restlessness rather than poverty. As job holders they were misfits, frequently quitting and getting fired. In the process, as the authors describe in a chapter that strains too hard to be clever, they mastered such entrepreneurial arts as drifting, "protegeship," and basic dealing.

Some readers may find the pyschiatric orientation of this report irritating. Some may question the dogmatism of its conclusions in view of the small size of the sample. But most will find its case studies both entertaining and illuminating.

The entrepreneurs portrayed in these pages are not particularly likable. But then, as they themselves would be quick to point out, nice guys don't win—at least outside the secure fold of the corporation.

Management Controls: New Directions in Basic Research by Charles P. Bonini, Robert K. Jaedicke, and Harvey M. Wagner, *McGraw-Hill Book Company*, New York, 1964, 341 pages, $8.50.

This collection of papers presented at a Stanford University seminar on basic research in management controls combines contributions of economists, mathematicians, accountants, behavioral scientists, and representatives of other disciplines.

The twenty articles in this volume review research that is going on in the application of economics, simulation, budgetary control, and behavioral science to management controls.

The economists' contributions deal chiefly with the use of price systems, particularly transfer prices, as internal controls. One highly mathematical paper is concerned with the cost and value of information in organizations; another, with the application of linear programing to management controls. Three authors describe simulation models of business organizations, including one based on the theories of industrial dynamics.

Budgetary control topics include its use in a divisionalized framework, its application to inventory management, its conflict with multiple goals, and its relation to game theory. Other subjects include the effect of audits on behavior, the psychodynamics of compensation, and the relation between controls and productivity.

Although only a few of these papers are overburdened with mathematics, most are both general and theoretical. They deal, after all, with basic research. Few businessmen will find them useful; some may find them provocative.

MAGAZINES

Consultants: The Men Who Came to Dinner by Walter Guzzardi, Jr., *Fortune*, February, 1965, and **What Management Consultants Can Do,** *Business Week*, January 23, 1965.

Two leading business magazines simultaneously look at the booming field of management consulting—with different results.

These two reports on the current state of management consulting have little in common, but they agree on one point: It is a growth industry.

In 1964, according to *Fortune*, American industry paid out $350 million for general management consulting and $300 million for technical services. This total of $650 million is twice what management spent for consultants a decade ago. For 1965, *Business Week* forecasts $750 million.

The billings of the consulting firms that belong to the Association of Consulting Management Engineers have been growing at an average annual rate of 8 per cent for the past five years—about twice the growth rate of the gross national product, *Fortune* says. The eight largest accounting firms have been doing even better; they are estimated to have increased their general consulting business by 15 per cent from 1963 to 1964. And, says *Fortune*, they "can show just as impressive a list of satisfied clients as anyone else in the business."

After agreeing on the importance of the consulting field, the two articles part company. *Business Week* takes a swipe at the Association of Consulting Management Engineers, implying—without any apparent justification—that the association is not concerned about the problem of ethical standards for consultants. And it offers one comment that will probably raise the hackles of the accounting profession: "Some of the proliferation in the ranks of the consultants results from what might be termed the upgrading of other lines. The major accounting firms, for example, are working hard to do much more for business than simply make the books balance." But on the whole the *Business Week* article is bland, innocuous—and uninformative.

Business Week offers little information about the topics it promises to discuss—how to pick a consultant, what to do about charlatans, even the subject of the title, what management consultants can do. Its rambling citation of names, quotations, and long, pointless anecdotes adds up to no particular conclusion.

Fortune, in contrast, has a point of view, one not altogether kind to the management consultants. Its main charge, made in the title, echoes the client criticism quoted in many other studies, that consultants, once engaged, are hard to get rid of.

Fortune paints the consultant's

world as one of small capital investment with little risk, high profitability, and an apparently limitless market. To prosper there, the magazine claims, the consultant must master the art of "self-perpetuating sell," which will permit, in the words of one consultant, "rolling from study to study once we get in."

The *Fortune* article focuses heavily on the economics of consulting. The market, it says, is nearly infinite; "even solutions bring new problems in their wake." Profit margins are high, up to 40 per cent of gross revenues in some cases, because even well paid young staff members "are cheap when related to the price they can be billed out for" and because of the phenomenon of "negative variable costs" (since costs are billed to clients, the more consultants make the less they spend). As a result, senior members of the big firms "take home huge amounts of money."

There is no reason, of course, for client companies to object to consultants' high incomes; indeed, there is some evidence that top executives prefer to deal with men in their own income brackets. None of this proves that good consultants are not worth their fees. Nor does *Fortune* make any such claim.

It does not deny "that general consulting firms can meet and satisfy some of the needs of management. The second consulting study may be just as useful as the first. It may save the company many times its cost. But," it warns, "one thing is certain—consultants can stay around companies for a long, long time."

Measuring Risk on Consumer Installment Credit by PAUL F. SMITH, *Management Science,* Vol. 11, No. 2, November, 1964.

A relatively simple risk index is proposed as a statistical method to measure credit risk.

The traditional system of measuring consumer credit is the four C's —character, capacity, collateral, and capital. This method is imprecise and creates a number of problems, particularly when a decision is made to tighten or ease credit standards. The use of a risk index to apply against an account would give an objective probability of its collectibility.

Such an index can be developed by comparing various traits, such as time in last residence, age, sex, marital status, monthly income, telephone status, home ownership, etc., of bad accounts with those of good accounts. Once the probability for each trait is determined, the risk index could be determined by a simple formula that is given in the article.

Risk index values for new credit applicants could be determined by assigning the appropriate probabilities and adding them as indicated by the formula. The accuracy of the index must be continually checked and reviewed as business and economic conditions change.

JAMES H. MCLEAN
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Allocating Advertising Dollars by Linear Programing by JAMES F. ENGEL and MARTIN R. WARSHAW, *Journal of Advertising Research,* September, 1964.

The authors show how to use linear programing to solve two media selection problems and then review some of the limitations of the technique.

The use of linear programing to allocate advertising expenditures to media has become something of a fad in recent years. After trying the technique on two relatively simple problems the authors find that it is feasible but no panacea.

The major problems arise, they say, in identifying and quantifying the important marketing variables— the same problems that arise without LP. Thus, the authors conclude, LP is not a breakthrough; it involves little more than systematizing steps that successful advertisers have followed for a long time.

This does not mean that LP is not useful. It can save a good deal of clerical work. And it forces management to prepare precise definitions of markets, to gather more data on media audiences, and to quantify factors that are highly qualitative in nature. If it did nothing more than provoke more careful marketing research, they suggest, it would be worth the effort.

Setting Up an Effective Internal Policy Program by JULES LEVIN *Administrative Management,* October, 1964.

The author, who is communications manager of U. S. Plywood Corporation, stresses the need for written policies to guide employee decisions and offers some suggestions for developing them.

When an employee has to make a decision in the course of his work he does so both as an independent individual with his own private set of beliefs and as a member of a business organization. The process usually is so automatic that few executives realize how their decisions represent a combination of company viewpoint and private outlook. The best interests of the company will not be served if the individual in arriving at a decision subordinates the corporate viewpoint to his own. The solution to this problem lies in setting up policies that will guide employees to act in the best interest of the company.

Such policies must be the result of careful consideration and analysis and must be consistent with the company goals. Furthermore, merely establishing policies will not accomplish very much; the employee whose work is affected by the policies must know of them and must understand them. Otherwise the policies will be worthless.

To emphasize the need for establishing meaningful policies the author cites the experience of a corporation dealing in automotive parts and supplies. From time to time the company was faced with claims arising out of faulty workmanship, damage, and misrepresentation. Since the company had no clear policies on the handling of such claims, executives in the far flung branches had to make their own decisions separately. They faltered, fumbled, and committed expensive errors in attempting to settle the claims. In many cases the claimants were repeat customers and branch managers were afraid to antagonize them.

An examination of the company's over-all claims expense disclosed that it was both excessive and erratic. There were wide variations at different locations in the number of claims and in the dollar amounts of settlements. After a committee had investigated the problem, a clearly defined claims policy was established. Limits were set on the size of claims that could be handled by branch managers and by zone managers. All claims in excess of a specified amount were to be referred to the executive office.

To get its policies down in writing a company should begin by examining all bulletins, memoranda, and previous correspondence. These sources will provide information regarding how the company has handled its problems in the past. These pieces of information, when coordinated and integrated, should provide the basis for a set of written policies.

The author concludes with ten examples of policy items, together with the source of each, which emerged at random in a search for policy material in one office.

Business organizations face an ever increasing need for consistent, coordinated company action. A major step in meeting this need is taken when a company establishes a meaningful set of written policies, informs its employees of them, and requires that they be followed.

However, there are two important aspects of company policy programs that the article does not cover. Policies must not be looked upon as permanent. They are guides to action, and they must be revised periodically to meet changes in the needs of the company and to conform to the changing environment in which the company operates. Also, it is not always desirable for a company to put all of its policies on paper. Written policies tend to be inflexible and in most companies there are certain areas in which the process of decision making should remain flexible.

ARTHUR V. CORR
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The Challenge to Electronic Data Processing by JOHN B. SCOTT and MCREADY S. YOUNG, *Financial Executive*, February, 1964.

It is time, the authors argue, for EDP to move beyond its cost-cutting role into that of aid to scientific decision making. They outline the challenges this change would present to equipment manufacturers, data processing personnel, and financial management.

To date, electronic data processing has been used most successfully in a rather limited area of business operations—to achieve out-of-pocket cost savings and time savings, which are potential cost savings. The aim of manufacturers and users of the equipment has been to eliminate slow, costly methods.

However, there is another area of application—the use of scientific and mathematical techniques for achieving maximum profit with minimum capital investment and operating costs. This approach was initially rejected by many managements as being too radical and too expensive in view of the intangible results.

Now, however, many executives are recognizing their need for true management control—the development of relevant information to utilize the company's assets at the lowest possible cost and maximum profit. Both the techniques and electronic data processing equipment exist for the implementation of this approach in planning, scheduling, and evaluating operations. The real test is not in "nailing down" company history to project future operations but in nailing down the future so that when it becomes history, it is the result of intelligent scientific planning, not of coincidence.

The challenge is first directed to the equipment manufacturers. They must provide the equipment, orientation, training, and education for management personnel in user companies.

The challenge is also directed at the data processing manager. The scope of his responsibilities will expand from merely supervising the processing of accounting and statistical data to include knowledge of company operations and the necessary techniques required to provide an effective management control system.

Finally, the challenge is directed at the controller. He has the responsibility for bringing this new concept of management into being. The controller has to integrate the present accounting, statistical, and control techniques with the electronic data processing function to provide management with the necessary information to ensure the efficiency and effectiveness of the entire system, permitting the isolation and solution of control problems in any management area.

M. J. BLUMBERG and L. S. CORDREY
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How a Local Firm Enters the Field by GEORGE E. RAYMOND, *Pennsylvania CPA Spokesman*, April, 1964.

This article is a very general discussion of how a local CPA firm can enter the field of management services.

For the guidance of local accounting firms interested in expanding their practice to include management services, Mr. Raymond offers five recommendations:

1. A partner should be chosen to head the department. He should familiarize himself with management services techniques by reading and attending seminars and meetings. He should then spend time in the field applying his knowledge and gaining experience.

2. The partner should then select an individual to develop the function within the firm. This person must be able to handle people and

have the capabilities of becoming a partner.

3. This manager must be thoroughly trained in all facets of the field. His training should proceed only as he develops a sound background in each of the areas of management services. At this time, the firm may extend and expand services to clients, the partner and trainee working closely until the trainee is competent.

4. Expansion of the management services department should proceed only as fast as internal progress permits rather than as fast as external pressure desires.

5. A close relationship must be maintained among the client, partner, and management services department, enabling them to work together and help each other. A partner review of all material passed on to the client should be mandatory.

RICHARD ALLEN STAFFORD
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'Low Cost' Cost Reduction by L. LEIGHTON FARRAR, *The Price Waterhouse Review*, Summer, 1964.

Case histories from the management services files of a public accounting firm demonstrate the value of continuous attention to cost reduction.

Since opportunities for cost reduction always exist, the vigilant manager should never be satisfied with the status quo, Mr. Farrar cautions. Proper cost control does not necessarily require extensive investment in equipment, but it does require an open-minded approach to cost review and the willingness to use specialized help to identify problems and find their solutions.

Mr. Farrar illustrates his thesis by reviewing sixteen studies conducted by Price Waterhouse. Problems included, listed in order of frequency, are overstaffing, staffing to handle fluctuating volume, inventory management, centralization versus decentralization, ineffectiveness of sales and distribution, and various production problems. Among the techniques applied were realignment of functions within the organization; improvements in manpower management; development of models for a company, for inventories, and for forecasting; and detailed studies of production and quality control, marketing and distribution policies, and over-all top management requirements.

In a majority of cases the annual savings achieved ranged from $100,000 to $500,000. In four cases annual savings exceeded a million dollars (in one case they were more than $2½ million). Benefits added up to more than dollar cost savings. Some companies improved their service to customers, and some felt the cost studies put them in a more flexible management position for decision making.

E. M. ARIS
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What the Accountant Can Do for the Marketing Executive by CLARK SLOAT, *The Price Waterhouse Review*, Winter, 1963.

More use of financial analysis in the marketing function could enhance corporate profitability. The chief problem, Mr. Sloat suggests, is one of communication.

If they are to improve their service to marketing, Mr. Sloat advises, accountants need to improve both their understanding of marketing and their ability to communicate financial data. He recommends that accountants avoid technical terms and express their reports in the language the marketing executive understands. In addition to laying the groundwork for more profitable decisions, this policy would benefit both parties: In order to do so, the accountant would have to learn something about marketing. And the marketing executive would be helped to increase his understanding of the "intricacies of finance, the need for financial analyses, and the meaning of net profit."

The accountant also must provide data that will be of value to the marketing manager. Marketing financial analysis must be attuned to decision requirements. Mr. Sloat cites two case examples to illustrate his point:

The financial officers of a company felt that prices would have to be increased if the company's profits were to be maintained, but the marketing executives were aware that the company's independent distributors, who had to meet competitive prices, were just barely breaking even. An analysis of a typical distributor's business uncovered important deficiencies whose correction enabled both distributor and manufacturer to increase profits. The study was incorporated in a manual of financial and marketing control for distributors.

A study of distribution costs, made as part of a quantity pricing defense under the Robinson-Patman Act, showed that a company's discount schedule on smaller orders was unrealistic. The result was more realistic pricing policies. In both these cases financial analysis at the proper point in the marketing process added to company profitability.

The accountant also can help the marketing executive control costs. Cost control data must be directly related to the marketing process. Some of it can be generated from marketing and accounting records, but usually more information must be gathered. These data must be carefully researched and clearly defensible, not mystical estimates. Good data usually reveal possible alternatives from which the marketing executive can choose in establishing cost controls.

Mr. Sloat warns that the accounting problems relating to marketing have not all been solved. Indeed, he points out, this is one of the underdeveloped frontiers in accounting services for management. To open up this frontier requires a better knowledge by the accountant of the marketing process and development of improved ability to communicate with the executives who carry the decision responsibilities for the marketing function.

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