Management Services: A Magazine of Planning, Systems, and Controls

Volume 2 | Number 3 Article 8

5-1965

What People Are Writing About

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BOOKS

The Administrative Manager's Guide to Better Faster Work at Lower Cost by WILLIAM W. MARTIN, *Prentice-Hall, Inc.*, Englewood Cliffs, New Jersey, 1964, 287 pages, $15.

This physically large but substantively slight volume might be subtitled "Systems for the Nonsystems Man."

This book is aimed at the unsophisticated administrative manager who knows the details of the work his employees must perform but is unfamiliar with modern systems techniques. The author, a member of the planning and research department of J. C. Penney, Inc., is attempting to give the office manager "the benefit of modern technology without burdening him with irrelevant complexities."

In relatively few pages Mr. Martin manages to say something about nearly everything in office management, including work simplification, work sampling, work flow control, clerical quality control, document control, whole dollar accounting, forms control, filing, records retention, office layout, and computers. What he says is useful—in fact, there are many helpful tips scattered throughout the book—but somewhat sketchy.

The book is written—or edited—in the exclamatory style favored by Prentice-Hall. It is also highly simplified, perhaps oversimplified. This is a primer, not a manual.

Real-Time Data Processing Systems: Introductory Concepts by WILLIAM H. DESMONDE, *Prentice-Hall, Inc.*, Englewood Cliffs, New Jersey, 1964, 186 pages, $7.95.

The author, a member of the research staff of International Business Machines Corporation, summarizes the basic techniques of designing and programing real time *data processing systems, using IBM equipment.*

Despite its title, this is not a book for the computer beginner. The author assumes that the reader is familiar with conventional computer programing and therefore defines only the terms that are unique to real time systems.

The approach is technical. Topics discussed include multiprograming, storage allocation, priority processing, transmission control, disk file organization, program testing, and the use of simulation in system optimization.

There is heavy emphasis on the capabilities and characteristics of IBM equipment. American Airlines' Sabre reservations system and the Project Mercury data processing system are described in some detail. Otherwise, there is little about applications of the real time concept.

Programers and systems planners who are thoroughly grounded in computer fundamentals but who lack experience with real time processing will find this book helpful. For the businessman it would prove heavy going.

MAGAZINES

Corporate Control and Capitalism by Shorey Peterson, **The Impact of the Corporation on Classical Economic Theory** by Adolf A. Berle, and **Another View of Corporate Capitalism** by Carl Kaysen, *The Quarterly Journal of Economics,* February, 1965.

Two economists disagree with a third as to the nature of contemporary capitalism. One argues that modern capitalism is still identical to that of the classical theorists, while the others maintain that they are no longer the same.

Peterson's article advances four major propositions of a traditional and classical nature:

1. The main theme of classical capitalism is: "The economy's dependence on voluntary, self-supporting, private enterprise." When this essential prevails, no serious departure from the classical capitalism is therefore present. Capitalism of today does not deviate from that of the classical economists.

2. The health and survival of a company depends on its revenue-cost relation. This relation is of large magnitude when compared with the residual profit. The latter is thin in comparison to the scale of operation, revenues, and costs.

3. It is questionable that business conscience has helped to tighten the very loose linkage between private goals and social gains. In the process of using and selling products, sacrifice of the enterprise's long-run prosperity is unlikely. But in the apportionment of earnings management does have a greater latitude.

4. It is seriously dangerous to view the owners of a concern as coordinate with employees, customers, suppliers, and the public, and even more as a "poor cousin among them." Management does what is best for the stockholders when its objective is to achieve the company's prosperity and success.

Berle disagrees with the central theme of Peterson's article. He argues that technical and statistical evidence proves that "capitalism" as classically understood has completely changed and that business of the neoclassical economists and that of today are quite different. To support his argument, he cites some of the measurable facts such as the size and scope of large corporate activities, the distribution of ownership, the change in wealth-holding, the source of and power over capital, the nature of competition in a modern sense, the concept of maximizing profit, and finally that stockholders' drives are influenced by social-political, and not only by entrepreneurial, factors. He concludes that where the stockholder is maintained in his position, the fact is not proof of the "deep-rootedness" of traditional capitalism but is simply caused by the individual's ability to choose his own way of life.

Kaysen argues that some aspects of the problem are omitted in Peterson's discussion and that it is handled from a narrow point of view. The question is of what magnitude the residual profit should be in order to determine whether a project is acceptable or not. The argument that the constraints of the market leave no choice to the firm but to maximize its profits or vanish is only true in a purely competitive market. On the other hand this statement is not true in the utility industry and other industries where competition is at a minimum. Both theoretically and empirically, capital market functioning and corporate finance do not support the argument that Peterson advocates of a perfect capital market. Finally, the approach overlooks the difficulty of "identifying the aggregate effects with the alleged causes in any economy in which many other causes are also at work."

Peterson's argument that capitalism of today is the same as that of the classical economists, namely that the ideologies of Adam Smith, for instance, of *laissez-faire,* pure competition, and nongovernmental intervention still prevail, does not seem acceptable. His conclusion overlooks the fact that nowadays big business, antitrust laws, franchises, among a host of other regulations, are severe limitations and constraints on the original philosophy of capitalism.

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Michigan's Task Force on Expenditure Management by George Romney, *Lybrand Journal,* vol. 45, no. 4, 1964.

In this nontechnical article Governor Romney explains how eight CPAs and fifteen other financial experts, who form the Task Force on Expenditure Management, have been able to apply sound management principles to operating procedures of the state of Michigan.

The importance of administering government in a businesslike manner is emphasized in this article by

Governor Romney, himself one of the best examples of a businessman in public service. His article offers several examples of specific savings realized by Michigan's Task Force on Expenditure Management: $500,000 by consolidating data processing equipment, annual savings of $244,000 and $400,000 by eliminating certain excess jobs, savings of $742,000 a year through use of sound purchasing procedures, etc. Other changes in procedures include the installation of "program performance budgeting" and monthly financial reports keyed to budgetary control. Despite the electioneering style in which Governor Romney appraises the work of the task force, there is no doubt that this special type of management service by CPAs has played its part in bringing Michigan a long way from the well known "payless pay days" of a few years ago.

Those CPAs with an interest in the efficient operation of state and local government will draw inspiration from this article. Inspiration and satisfaction may often comprise the bulk of the fee in this type of work. At least, the article points out that something can be done. It may even lead the CPA to higher office. (William Seidman was the Republican candidate for Auditor General of Michigan in 1962.) New opportunities should soon be available as attested by the inquiries Michigan has received "from California, Pennsylvania, New York, North Carolina, and many other states" about its program.

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Cost-Volume-Profit Analysis Under Conditions of Uncertainty by ROBERT K. JAEDICKE and ALEXANDER A. ROBICHEK, *Accounting Review*, October, 1964.

Articles concerning the application of cost-volume-profit analysis have been found often in accounting literature. However, Mr. Jaedicke and Mr. Robichek bring into perspective the role of risk and uncertainty that makes cost-volume-profit analysis more realistic. The authors suggest that if a manager used conventional cost-volume-profit analysis he would be indifferent in choosing between product A and B if both products had seemingly equal sales potential. However, if both sales estimates are subject to uncertainty, the decision process could be improved if the relative risk associated with each product could be brought into focus in the analysis.

In a cost-volume-profit analysis the accountant usually uses four fundamental relationships:

1. The selling price per unit
2. The variable cost per unit
3. The total fixed cost
4. The expected sales volume of each product

The first three of the above relationships are usually considered fixed and are used in ascertaining the estimated sales volume needed to earn a given profit. Or the elements are used to determine the estimated profit for a given sales level.

In the ensuing discussion probabilities are used to arrive at the expected monetary value (sales) for two products. The sales demand for each product is calculated by weighting the possible conditional sales values by their respective probabilities. The weighting process formally discussed is what most managers and accountants would do mentally when estimating future sales, even though the individual may be completely unaware of his reasoning process.

At this point the authors introduce the use of the "normal probability distribution" and the "standard deviation" in their reasoning. The normal probability distribution is a smooth, bell-shaped curve, i.e., the normal curve as used in statistical reasoning. The standard deviation is a measure of the dispersion of the distribution around the mean point and it indicates how spread out the distribution is. The area under the standard normal distribution curve equals one (1) since all possible values of the variable come within the limits of the curve. The area under any part of the normal curve can be approximated by referring to a normal probability table that shows the area between the mean (average) and any number of standard deviations on either side of the mean.

The authors do a commendable job in presenting illustrations on the use of the normal probability distribution and the estimating of the standard deviation by the use of subjective judgment. The practical application of the authors' reasoning becomes apparent in the illustrations that follow. Given a situation of expected sales, the accountant can determine, once the standard deviation has been ascertained or approximated, the probability of at least breaking even or the probability of incurring a loss or the probability of incurring a loss in excess of "X" dollars.

If the probability of a loss is in excess of the amount the company is willing to accept, then that course of action will not be followed. If the probability of earning a profit on a certain line is considered good by the company (as indicated by management's computations and judgment) or if the probability of earning large profits is within the acceptance range set up by the company, then the line will be marketed. Naturally, a manager could use the probabilities from different alternatives to compare the risks of various alternative courses of action. When the firm's attitude toward risk is known, the process of choosing among alternatives will be facilitated.

The article is concluded with an example using the mean, standard deviation, and probabilities for all four fundamental relationships in cost-volume-profit analysis. As expected, the larger the variation in the data, the larger the spread of the normal curve.

This well organized article leads the reader through a logical statistical application in cost-volume-profit decision making. A very limited knowledge of statistics is adequate background for complete understanding of the general thesis. However, the authors glide over the question as to when the normal probability distribution should be used or whether it is generally applicable. They do state, however, that "this distribution (normal probability distribution), although widely used, is not appropriate in all situations. The appropriate distribution depends on the decision problem and should, of course, be selected accordingly."

This provocative article deserves the attention of any accountant interested in cost-volume-profit analysis in today's dynamic business scene.

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Management Insights for the Small Home-Builder by Edwin D. Wolf, *Management Controls,* January, 1965.

Although this article is adapted from a talk before a home-builders association, much of what Mr. Wolf says is sound advice for any business. His three main topics are management development, control techniques, and accounting techniques.

Personnel policies of a business are often neglected areas of concern. "In the last analysis a business is not going to be operated by systems, papers, or financial statements. It is going to rise or fall depending upon what people do with the information they are given," says the author.

Although qualities such as ambition, physical and emotional stamina, willingness to sacrifice, and willingness to take risks have been given as basic requirements of good managers, Mr. Wolf considers the ability and willingness to make decisions as most essential. An intelligent evaluation of the facts is important, but management in general, he feels, spends far too much time discussing and analyzing problems from all viewpoints: "It is said that the successful man is the one who guesses right more often than wrong, but at least guesses. We have too many people today who are afraid to guess and do not realize that even the turtle has to stick his neck out to get ahead."

An inventory of a firm's personnel and their qualities and potentials will help in assuring good talent in the future. The elements of security, job satisfaction, and compensation are primary in the motivation of personnel. Mr. Wolf reminds the reader that "the good men are the hardest to hold; the mediocre seem to stay forever."

The author rates job satisfaction as the most important element in getting and retaining good men. Managers who are given responsibility and authority commensurate with their abilities will be more satisfied in their jobs. Compensation is a primary motivating factor and has two aspects. One is the restraint that it places on how well managers and their families live. The other aspect, probably more important, is that compensation places managers on a value scale so that they can see how well they are doing. "It is one thing that replaces marks in school or stripes in the service," but the importance of security as a motivating aspect for good management men is often overemphasized. These men are not apt to be overly concerned with pensions, group life policies, or hospitalization plans.

Mr. Wolf defines control techniques as "all of the things that we do to keep our fingers on the pulse of the business and ensure that we are able to move in on sour situations before they deteriorate beyond redemption." The Critical Path Method (CPM) and the Program Evaluation and Review Technique (PERT) are the control techniques most emphasized. CPM "enables the user to evaluate alternative courses of action and provides the comparative costs of choosing one plan versus another." The primary function of PERT "is to reflect activities that are endangering the over-all completion date and to provide the project directors with indications of where slack time is available." In both techniques a critical path is developed that shows where there is the least amount of slack.

Mr. Wolf cautions against excessive detail in the design of networks for CPM and PERT. Only the significant activities should be given a place in the network. Another factor to be kept in mind is the semi-independence of many activities. For example, although forms-setting is dependent on excavation, some forms may be set before all ground is excavated.

A contractor's accounting system should provide for current contract cost records, control over estimating, periodic evaluation of contract profitability, control over equipment, control over payrolls and other disbursements, and billing procedures. It is sometimes asked whether a company can afford such an accounting. A better question might be whether a company can afford not to have the information provided by such accounting. The author doubts that a tax-oriented accounting system can provide the proper information for control purposes.

A budgetary control system can help management to "develop the broad administrative viewpoint and be able to gauge the effectiveness of its operations, and its team members, on a regular recurring basis."

Mr. Wolf observes that it is somewhat easier now to develop good accounting records without a large staff than has been the case in the past. Almost all bookkeeping and accounting machines are capable of producing punched cards or tape as by-products. Service bureaus can process coded information and furnish cost reports, budget analyses, and cash flow and other reports. The author stresses that, regardless of mechanics used, "systems themselves must be designed to fit your needs and merge with your day-to-day operations."

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