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What People Are Writing About

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BOOKS

Management and Machiavelli by ANTONY JAY, Holt, Rinehart and Winston, Inc., New York, 1968, 244 pages, $4.95.

This "inquiry into the politics of corporate life" is not nearly as important a work as the publishers make it out to be, but it is must reading nevertheless, if only for its sheer entertainment value.

Antony Jay, a management consultant and former television producer, wrote this book as a result of reading Machiavelli's *The Prince* "and being struck that this was a valuable management handbook for today. The more I pursued this persuasion the more clear it became to me that in all important respects corporations are political units analogous to the kingdoms and dukedoms and states of the past, that the same principles of good and bad government, success and failure, growth and decline apply to both. My book takes this starting point and goes on to show how much understanding of corporations and their management can be gained from the study of history."

The dearth of sound management theory, Mr. Jay argues, does not stem from the absence of any really tenable economic theory of business enterprise. Rather, it results from the failure of students of management to realize that the applicable theory is not economics but political science.

"The new science of management," he says, "is in fact only a continuation of the old art of government, and when you study management theory side by side with political theory, and management case histories side by side with political history, you realize that you are only studying two very similar branches of the same subject. Each illuminates the other, but since history has been studied to excess, and management hardly at all, it is not surprising that it is management situations which are illuminated more often."

This, then, is the method Jay employs—to illuminate the way management operates by drawing analogies from political history. The management principles he deduces are not new; this book "does not attempt to supply more information about the corporations: Heaven forbid. Its purpose is to make sense of the vast amount of information we already have." What is new is the viewpoint—the analogies drawn between corporate line and staff executives and their medieval counterparts of barons and courtiers, between the Tudor state and General Motors.

Machiavelli method

The title is somewhat misleading, and fans of Machiavelli will be disappointed by the limited space given to applying the wily Italian's own precepts. Lessons drawn from *The Prince* are applied to mergers (foreign conquest) and colonization (establishment of new divisions); then Mr. Jay happily takes off for other lands and centuries.

This book, he explains, is not based on Machiavelli's arguments but on his method, "the method of taking a current problem and then examining it in a practical way in the light of the experiences of others who have faced a similar problem in the past." These others range historically from Hadrian to Hitler, with side excursions into literature as well. Ineffective chief executives are classified by their resemblance to King Lear, Richard the Lion Hearted, Nicholas II of Russia, George I, George III, Edward the Confessor, and the pussycat who went to London to see the queen; the "union problem" is compared to the Reformation.

Occasionally, for consistency is no hobgoblin for Mr. Jay, he even deserts his own method and writes in a relatively straightforward, didactic way. These sections of the book, on leadership and creativity, are its weakest, for the charm of this work lies in its imaginative merging of such outwardly dissimilar institutions as the United States government and the medieval Papacy.

But there is more than enough analogy—presented in a delightfully epigrammatic style—and enough ordinary common sense to make this a book that anyone involved with management will want to read. It is the funniest work on management since Parkinson's Law.

Communicating for Leadership: A Guide for Executives by George de Mare, The Ronald Press Company, New York, 1968, 283 pages, $6.

This advice-packed manual, really more of a public relations than a writing guide, is a bargain at its relatively low price.

The idea for this book, its preface explains, stemmed from the question, "Where can I find in a single book a comprehensive view of the essentials I need to know about communicating?" Here the author, who directs the communications and publications activities of Price Waterhouse & Co., has attempted to supply just that comprehensive view.

Communication is a broad subject, and the scope of this book is broad indeed. In the space available only the essentials of each topic can be covered. How to write gets a chapter; so does how to speak to an audience. There is a chapter each about the techniques of employing the basic forms of communication—the conference, correspondence, the memorandum and report, the promotional piece, the article, the speech, and the book. The rest of the book is chiefly about public relations—how to reach specific publics and how to put together a communications (public relations and corporate internal communications) program.

All this sounds like a conglomeration of a little bit about everything. Actually, it is a good deal better than that. Most of these are subjects about which millions of relatively meaningless words have been written; Mr. DeMare makes his words count. His advice is sound, concise (often expressed in convenient check lists), and, from the executive's point of view, comprehensive enough. He has performed a real service.

Briefly Listed

A Techno-Fundamental Portfolio Management Simulation with Computer Applications by Charles W. Hackett, Jr., Bureau of Business Research, The University of Texas, Austin, 1967, 53 pages, $1.50 (paperbound).

This computerized management game is designed for practice in portfolio management.

Probabilistic Models by Clifford H. Springer, Robert E. Herlihy, Robert T. Mall, and Robert I. Beggs, Richard D. Irwin, Inc., Homewood, Illinois, 1968, 301 pages, $5.25 (paperbound).

This review of the use of models in decision making and of probability theory is the fourth in a series of volumes prepared for a General Electric training course in mathematics for managers. The style is simple and vivid, but the mathematics is probably beyond anyone who has not studied the earlier volumes or their equivalent.

Direct Costing Techniques for Industry by Samuel M. Woolsey, Prentice-Hall, Inc., Englewood Cliffs, New Jersey, 1967, 203 pages, $17.50.

This paean of praise for direct costing describes the technique with reasonable thoroughness. It might be useful for someone who is sophisticated enough to make adjustments for the author's somewhat excessive enthusiasm; ("The direct cost method provides statements which are superior, for managerial control and planning purposes, to those prepared according to the conventional method. Definite and permanent income tax benefits are obtained by a company which can report taxable income on the direct cost basis. Financial analysts should find the direct cost statements more informative.")

Simulation Gaming for Management Development by James L. McKenney, Division of Research, Graduate School of Business Administration, Harvard University, Boston, 1967, 189 pages, $4 (paperbound).

For those interested in the use of business games for management training, this monograph describes the Harvard Business School Management Simulation Game and reports on the school's experience with it.

Management Information Systems and the Computer, Part 1: The Design of a Management Information System by The Institute of Cost and Works Accountants, Gee & Co. Ltd., 151 Strand, London W. C. 2, England, 1967, 56 pages, 10 shillings sixpence ($1.26) plus postage (paperbound).

This little booklet, the first of a series on electronic data processing, reviews the basic concepts of information system design and explains the overall role of the computer. The series is based on discussion papers prepared by a number of EDP study groups set up by the institute to investigate the impact of computers on business. The papers are aimed primarily at the less sophisticated reader.

Presenting Technical Ideas: A Guide to Audience Communication by W. A. Mambert, John Wiley & Sons, Inc., New York, 1968, 216 pages, $6.95.

This how-to-do-it book is intended for any specialist who has occasion to communicate technical information to a group. It tells how to get ideas ready to present (research, outlining, etc.,) and how to deliver them to the audience (visual aids, audience rapport, etc.) The author, on the staff of International Business Machines Corporation, has both given such presentations and taught their principles.

Production Planning and Control, (British) National Economic Development Office, 1966, 22 pages, available at 50 cents per copy (paperbound) from Sales Section, British Information Service, 845 Third Avenue, New York, New York 10022.

This little report on a mechanical engineering conference presents, in two conference papers, the case study of how Audco Ltd., a valve manufacturer, reduced its inventories, inventory/sales ratio, production lead time, order backlogs, and capital investment by the use of such techniques as work study, job evaluation, and centralized production control.

Appraisal and Control of Office Copying Equipment by Donald L. Byrn, published by the author, 220 Elder Avenue, Chula Vista, California 92010, 1967, 62 pages, $10 (paperbound).

This manual compares the capabilities and economics of 17 copying machines and 24 rental plans offered by four major manufacturers. Among the characteristics evaluated are production time, labor/overhead cost per copy, rental costs, and costs of supplies. There are also suggestions for controlling use.

The Progress of Management: Process, Behavior, and Operations Research by Harold Lazarus and E. Kirby Warren, Prentice-Hall, Inc., Englewood Cliffs, New Jersey, 1968, 330 pages, $4.95 (paperbound).

This book of 54 articles on management theory covers the full gamut from human relations to PERT. Subject categories include organization structure, decision making, leadership, and measurement and control. Contributors range from Peter Drucker and William Gomberg to C. Northcote Parkinson, humorist Richard Armour, and even Edgar Allen Poe. It is a heterogeneous but interesting collection.

MAGAZINES

Expanding Foreign Sales Through Export Credit Insurance by Walter H. Diamond, *Management Controls*, February, 1968.

Any prospect of expanding foreign sales is of particular interest at the present time in view of the increasing difficulties which the United States is encountering in its international trade and monetary affairs. Export credit insurance is one such prospect. Mr. Diamond presents the goals, benefits, and limitations of this service in a timely article which merits the attention of those involved with international operations.

The Foreign Credit Insurance Association (FCIA) offers a service to investors and traders in foreign markets which ensures payment on sales abroad in the event that the customer encounters liquidity difficulties resulting from business or political disturbances. Settlement is guaranteed. Rates for this insurance vary with the terms of credit extended and the country which is receiving the goods. The cost averages less than four-tenths of one per cent of sales.

The FCIA is a joint venture of the government and private insurance companies. In offering this service it hopes to achieve several goals such as placing U. S. exporters on a competitive basis with exporters of other countries who already use such insurance extensively; making possible more liberal credit terms on U. S. exports; assisting exporters to obtain financing for foreign sales; and, by generally reducing the risk associated with foreign sales, increasing exports and thereby alleviating the balance of payments problem.

The advantages of foreign export credit insurance described by Mr. Diamond appear to testify to the achievement of the program's goals. Concerning increased sales, one company reports that it sells abroad at least $100,000 of products annually which would not be possible without the insurance. With respect to financing, interest rates charged by commercial banks generally are lower when the insurance is present, in addition to the fact that the capital itself is more accessible when FCIA policies are used as collateral.

The principal disadvantages of the service are encountered in the timing, processing, and restrictions of the policies. Down payments of 20 per cent are generally required, and delays may result from the need to obtain credit approval.

On balance, the advantages of export credit insurance appear to present the foreign trader with the prospect of increasing the expected benefits of such trade at a nominal added cost. Profit opportunities emerge.

William H. Mateer
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Tax Planning of Foreign Operations by Leon O. Stock and J. Blake Lowe, Jr., *Management Controls,* March, 1968.

Tax as well as operating considerations are important factors in the decision to establish a foreign operation. They are reviewed in this article.

The question of whether or not to establish a foreign operation, and if so where, is of concern to many of the larger companies in the United States. The primary emphasis in considering possible foreign operations is, of course, on their profit potential. Once that is ascertained the applicable tax laws should be considered in selecting both the location of the operation and the corporate arrangement to be utilized. This requires not only that the U. S. tax laws be considered but also that the firm attempt to arrange the corporate structure so as to minimize the global tax burden by keeping foreign taxes low.

Basic principles

The authors give four fundamental principles that they employ as tools when considering the establishment of foreign operations. First, the company should endeavor to avoid Subpart F income and thus avoid premature U. S. taxation of foreign profits. Second, the company should endeavor to establish the foreign installation in a low- or no-tax-rate country if business conditions permit. Third, the company should consider establishing the foreign operation in a country which is a party to favorable tax treaties so that any withholding of taxes from one country to the other is minimized or eliminated. Last, the company should consider establishing the operation in a country where the profits generated at a low tax rate or at no tax can be reinvested elsewhere and where dividends ultimately received on the reinvestments are accorded favorable treatment.

Examples of savings

The authors give several applicable, and interesting, illustrations of how a corporation establishing a foreign operation can achieve substantial tax savings by establishing such operations in selected countries or certain areas of selected countries. These savings result from differences in the tax law, tax exemptions, or tax treaties of the various countries. As an example, in the less developed areas of Italy, where there is need to industrialize and create job opportunities, the government provides nearly 100 per cent tax exemption.

They also show that different forms of organization, different forms of licensing, and different forms of affiliation between the foreign operation and the parent corporation are variables that can have a significant effect on the total tax burden of the corporation.

This article indicates, mainly through illustrations, that firms with international affiliations can realize substantial tax benefits by taking advantage of differences in the tax regulations of the possible alternatives. It effectively illustrates that the large international corporation should be concerned, not only with minimizing the U. S. tax on corporate income but with the minimization of the global tax burden as well.

Gale E. Newell
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Key to a Second Revolution: The Computer as 'Buddy' by Charles Ramond and Charles Slack, *Columbia Journal of World Business,* September-October, 1967.

The computer can never realize its full potential, says this light but basically serious article, until its ultimate users come into direct contact with it. These authors have some suggestions as to how this can be done.

The chief obstacle to profitable use of the computer, say these professor-consultants, is the absence of sufficient information reliable enough to warrant fast processing. The solution is to make the computer the data gatherer as well as the data processor. But that requires eliminating the middle men who make the computer a vaguely menacing figure to ordinary people —be they businessmen or housewives.

To enlist the computer as data collector it will be necessary to establish an easy rapport between the machine and the people who are the sources of data. How? These authors suggest applying the principles of Dr. B. F. Skinner, by reinforcing learning with a reward.

The appropriate reward will vary, of course, with the type of individual. Paper-happy businessmen will be pleased to receive documents for their files. For the housewife, perhaps a premium. The public must learn to treat the computer as a sort of glorified pinball machine.

The tone of this article is frivolous, but the point is a serious one. The authors make a better case for the problem than for their solution; their list of suggested rewards is not very exciting. They do point the way, however, to the day when ordinary people will be on line to the computer as a matter of course.

Creativity and Innovation in Management and Auditing by C. A. Efferson, *The Internal Auditor*, Fall, 1967.

This author describes the type of creative leadership that he believes is part of the answer to assuring innovation and continued profits in our fast-changing and hazardous business world.

Creativity and innovation are topics that have received considerable attention in business literature. In this article, the author includes in the sphere of the internal auditor the task of assessing the creativity and innovativeness of the firm.

The author notes that there is some controversy in management theory concerning the appropriate frame of reference for organization and leadership concepts. It is not clear to what extent he is willing to incorporate the research findings of the behavioral sciences, but he does make an effort to broaden the scope of current business and auditing activities by the introduction of new concepts from other disciplines. This is necessary, the author says, because "The major problems of big business today cross such a great range of disciplines that the broadest kinds of hypotheses for solutions must be applied. A broad base of appreciation of all science and art is necessary to 'trigger' unusual innovative thought."

The terms "creativity" and "innovation" are used interchangeably in this article because, according to the author, that is how they are commonly used. In his view, the breaking of outworn habits and the building of better ones in business management and auditing can only be accomplished if creativity and innovation are present simultaneously. Good ideas alone are not sufficient to accomplish business objectives.

Removal of restraints

The author sees all men as inherently creative. Thus, he views the question of how to create creativity as one of how to remove the conditions that restrain people from doing what they are naturally inclined to do.

Research in the behavioral sciences has indicated that creativity often comes from people who are allowed to act responsibly on their own. The author draws from such research the implication that the conditions needed for creativity may be identical to the conditions that encourage good leadership. Sound business management relies at least in part on the extent to which creativity exists in the organization. This is the fulcrum the author uses to introduce his idea that an audit of creativity-innovation would provide information useful to management. The creativity audit could be used, he says, for just a segment of the firm or as an addition to the audit of the entire enterprise.

Creativity audit

Dr. Efferson offers a model audit checklist that may provide some readers with fresh and provocative ideas. As one might expect, the questions bear a marked relationship to the topics and views of the behavioral sciences. The questions assume that greater creativity results from open trust and an equitable partnership between employer and employee. From this position, the author notes how further increases in the degree of creativity can be attained. Constructive disagreement, for example, should be admired and encouraged.

There should be an open-minded atmosphere in the organization in regard to changes in company policy. He also suggests that problem solving might be given precedence over policy and the chain-of-command procedures of the organization. Intellectual independence is another factor that the author views as conducive to increased creativity. He notes, however, that intellectual independence of employees should be encouraged off the job as well as for business purposes. It seems hardly likely that the latter can exist without the former.

Creativity is ineffective without the ability to take a sound idea and implement it within the complexities of prevailing corporate modes of action. To meet the challenge of change in our society and in our business community, the firm must respond by striving for increased creativeness in every facet of its activities. Accordingly, there is a need for some segment of the firm to assume the function of assessing the creativity within the firm. As the author of this article suggests, the accountant seems a likely candidate for that job.

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The Relationship of Actual and Predicted Sales and Profits in New-Product Introduction by Donald S. Tull, *The Journal of Business*, July, 1967.

Sales forecasts are the heart of business operations from which signals are given to all segments of the system. Forecasted sales serve as the primary data for all major *activities, such as production planning, inventory control, marketing operations, budgetary systems, and final performance evaluation. Obviously they are particularly important in the case of newly introduced products.*

Mr. Tull presents a valuable empirical study of the relationship between actual and predicted sales and actual and forecasted profits for newly introduced products. The author clearly considers the study as exploratory in nature and its results as suggestive rather than definitive.

A set of hypotheses is presented and tested by a simple statistical technique. The hypotheses are based on what could be a general understanding of the relationship between actual and predicted sales and profits. The hypotheses are as follows:

1. Forecasts of sales and profits for new products have a systematic upward bias.
2. The mean relative error of sales and profit forecasts made for consumer products is the same as that for industrial products.
3. The mean relative error of sales and profit forecasts made for innovative products is the same as that for emulative/adaptive products. (An innovative product is defined as a new-to-the economy product; emulative/adaptive products include products new to the firm but marketed by others and significant differentiations of products already marketed by the firm.)
4. The mean relative error of sales and profit forecasts made using primary information is the same as that made using secondary information. (Primary information is obtained by means of surveys and tests of markets, while secondary information is usually obtained from historical records of the firm or other associations and agencies.)

The sample used did not represent the population and is a biased sample. Sixty-three new products introduced between 1955 and 1963 by sixteen companies were chosen to provide the data for testing. The firms selected were generally medium-large to large manufacturing companies characterized by better than average profit performance.

The absolute relative error (ARE) was used to measure the forecasting error from actual data. ARE was defined as

$$\left[(F_i - A_i) \div A_i)\right]100$$

where F represents forecasts and A represents actual data. The range of error and the mean error were computed for aggregated forecasts of sales. The mean relative error and the median relative error were computed for innovative and emulative/adaptive products, for consumer and industrial products, and for forecasts using secondary and primary information. A simple regression line equation was derived for the aggregate sales and profits of each product and also for the individual-period (unaggregated) forecasts; it is shown by $F_i = a + b\ (A_i)$. It is obvious that $F_i = A_i$ indicates a perfect forecast case. Hotelling's T^2 test was used to conduct the joint significance tests.

Results

Regarding the first hypothesis, the author found that sales and profit forecasts tended to be optimistic on low-sales products and pessimistic on high-sales products. This was in contrast to the hypothesis of a persistent upward bias in forecasts. Difficulties in forecasting and a tendency to be more conservative when big sales are involved were assumed to account for this finding.

The second hypothesis was accepted for sales data when it was found that the mean relative error of forecasts for new consumer and industrial products did not differ significantly. This did not seem to apply to profit figures, where the mean relative error for new consumer products was significantly lower than for industrial products.

The third hypothesis was accepted when it was found that the mean relative error for forecasts of sales and profits was not significantly different for innovative and emulative/adaptive products.

A relatively significant finding of this study was that the use of primary and secondary information resulted in almost the same forecast. This finding seems significant because of the wide differences in cost and effort employed to obtain each type of information.

Another important finding was that the average error of forecasts of sales and profits for new products was very high. This finding would have been more enlightening if it had been analyzed in terms of the forecasting methods employed.

As indicated earlier, this study is merely suggestive. It indicates the need for more empirical studies in the area of sales forecasting using unbiased samples and more sophisticated techniques.

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