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# What People Are Writing About


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## BOOKS

**The American Challenge** by J.-J. SERVAN-SCHREIBER, Atheneum House, Inc., New York, 1968, 291 pages, $6.95.

*American business is on the verge of reducing Europe to the status of a colony, this French journalist warns in a best-selling book that is interesting to Americans as much for its breathless admiration of American society as for its call for Europeans to man the economic battlements against the bloodless invasion.*

American, not European, management has seen the potential of the European Common Market and is capitalizing on it. Already, with $14 billion of U. S. capital (in fixed assets) invested, the European market is basically American in organization, Mr. Servan-Schreiber asserts. "Fifteen years from now it is quite possible that the world's greatest industrial power, just after the United States and Russia, will not be Europe, but American industry in Europe."

While European companies are still waiting for a Common Market statute to permit European-wide businesses, American companies manufacturing on the Continent are treating Europe as a single market. And they are, says Mr. Servan-Schreiber, capturing "those sectors of the economy most technologically advanced, most adaptable to change, and with the highest growth rates." He is most concerned about their growing dominance in the electronics industry, "the base upon which the next stage of industrial development depends."

This trend, the author feels, is not likely to be reversed. "During the next few years American investment in Europe will continue to grow far more rapidly than European investment. Its profits are already half again as large as

## REVIEW EDITORS

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ours. It is assuming the major role in strategic areas of development. This is not happening through ordinary investments, but through actual takeovers of European firms that Americans then transform into rich and powerful corporations."

They do this, Mr. Servan-Schreiber points out, "with European money that our own businessmen do not know how to use . . . Nine-tenths of American investment in Europe is financed from European sources. In other words, we pay them to buy us."

***Consumer benefit***

Mr. Servan-Schreiber does not deny that European consumers have benefited from the resulting prosperity. Even so, he feels, this peaceful invasion is a bad thing.

"To ask if the Europeans should turn an increasing share of their industrial development over to the United States is like asking whether it is better to be a wage earner or a factory owner . . . foreign investment imposes strict limitations on national development, limitations inherent in the very process of industrial creativity." Assigned to produce only established products, Europeans will be cut off from the possibilities of rapid expansion that result from innovation.

***Search for solution***

What, then, can be done? Mr. Servan-Schreiber is not in favor of national restrictions on American enterprise, which would simply result in a shift of production to another Common Market country, or even Europe-wide restrictions. For the fault, he feels, lies in European, not American, industry.

This is not an anti-American book. Indeed, Mr. Servan-Schreiber yields to no man in his admiration of American enterprise and American institutions. He wants Europeans to imitate the very characteristics of American society about which Americans themselves are uneasy—the educational system and the research partnership among business, government, and the universities which he calls the "industrial-intellectual complex."

This book has been faulted by economists and other critics for failing to back its sweeping assertions with supporting data. It is true that Mr. Servan-Schreiber's sources are few and loosely identified. They also vary widely in quality; he leans heavily, for example, on forecasts made by Herman Kahn's Hudson Institute, treating them as if they were facts rather than projections. The force of some of his examples has already been destroyed by the march of events; his choice of the sweep-wing plane to demonstrate American technological superiority was unfortunate, to say the least.

However, Mr. Servan-Schreiber is a journalist, not a scholar, and his book does not pretend to be more than a popularization. Furthermore, the real thrust of his book lies in its psychological rather than its factual truth. Whether these things are really happening or not is less significant than whether Europeans believe they are. And the extent of European belief is demonstrated by the impact of the book, which in its first three months sold more copies than any French book published since World War II.

Thus, this is a significant guide to European attitudes and European thinking for any businessman operating—or thinking of operating—there. Even those who have no interest in Europe will be fascinated by its picture of the United States.

**Managing Growth Through Acquisition** by David F. Linowes, CPA, American Management Association, New York, 1968, 192 pages, $8.25.

*A CPA with a lot of experience in acquisition counseling distills some of that experience for the benefit of merger-minded managers.*

Growth is the current corporate passion, and merger is the most popular route to it. These trends make this discussion of when and how to go about acquiring both timely and useful.

After a down-to-earth analysis of when to expand (and when not to) and when expansion should be internal, when by acquisition, Mr. Linowes gets down to specifics: how to organize an acquisition program, how to get leads to prospects, how to negotiate a deal, how to evaluate a candidate's financial position and its management, how to avoid government intervention, and finally how to integrate the new and old companies.

Mr. Linowes is a lively writer; his book is liberally sparked with anecdotes based on his own extensive experience in this field. His approach is practical; the book is full of checklists and lists of do's and don'ts. And he is highly knowledgeable; if every would-be acquirer heeded all his caveats, there would be many fewer—but many better—mergers.

For the executive or consultant who is a neophyte in this field, this book offers a valuable basic guide. Even the expert may find some new insights in it.

(Note: A large part of this book, in somewhat different form, appeared in various articles contributed by Mr. Linowes to Management Services.)

## MAGAZINES

**Old and New Productivity Techniques Start Closing Gaps** by James H. Duncan, *Columbia Journal of World Business,* January-February, 1969.

*Europe can meet the "American challenge" if it tries, says this management consultant specializing in work measurement. Not surprisingly, his recommendation is more use of work measurement to improve productivity without increasing payrolls.*

Capitalizing on the attention gained by J.-J. Servan-Schreiber's *The American Challenge,* Mr. Duncan takes the opportunity to sing the praises of industrial engineering, particularly work measurement, and suggest it as the solution to Europe's economic dilemma.

Mr. Duncan agrees with Mr. Servan-Schreiber that the gap between Europe and the United States is not basically technological, citing a number of technical advances—from cryogenics to the computer—that were pioneered in Europe. Nor, he agrees, is it totally managerial.

***Boost productivity***

Like Servan-Schreiber, he criticizes the educational system and social structure that lead to top management rigidity and condescension toward middle management, supervision, and technical specialists. If European management really wanted to, he concludes, it could do much to boost productivity, "always a fundamental element in economic growth."

To advance productivity, Mr. Duncan prescribes, European industry must overcome these weaknesses:

***Overcome weaknesses***

Lack of motivation for improvement (partly the result of high income taxes)

A tendency to prefer theoretical to pragmatic solutions

Lack of understanding of the need for efficiency and clear-cut objectives

Ineptness in dealing with unions

Reluctance to train and discipline employees

Lack of know-how in such areas as computers, automation, industrial engineering, and marketing.

Mr. Duncan's basic prescription for these woes is more and better use of sound work measurement techniques. He cites examples of European managers who attained dramatic productivity increases in this way. For example, one electrical components manufacturer in Great Britain doubled his output in three years without increasing his labor force.

Sound work measurement techniques, says Mr. Duncan, constitute an option open to every nation of the world. With them, "what is now considered 'the American challenge' could, in the coming decade and a half, be met by 'the European challenge.'"

**Robustness in Sequential Investment Decisions** by SHIV K. GUPTA and JONATHAN ROSENHEAD, *Management Science,* October, 1968.

*A new investment criterion called "robustness" is presented for long-range sequential investment decisions where there exists considerable uncertainty about the outcomes of certain future events. Under these conditions it is suggested that initial investments should be chosen according to the magnitude of their robustness, i.e., the number of good end states left open in the uncertain future when the initial irreversible decisions are made.*

This decision criterion was developed from a linear programing model in which this concept was used to choose geographical locations for the construction of new facilities to meet expected increases in product demand over a ten-year period where the outcomes could be estimated but their probabilities of occurrence could not. The advantages of robustness might suggest the adoption of this criterion on a broader basis in other decision making situations. But the assumptions upon which its use is based may prevent such a general adoption.

In the example given, the decision to expand production facilities for a product line had evidently already been made. If this were a one-product firm there might have been no substantial alternative investment available, and if the initial investments looked profitable, the robustness criterion could apply. But in most firms a limited supply of investment funds exists, and investments into several new and existing product lines vie for these funds. In order for an investment proposal to be selected to use a portion of these funds it must meet two requirements: (1) It must meet some minimum standard such as covering the cost of capital, and (2) it must have a criterion outcome greater than or equal to the outcomes of other proposals not selected. The robustness criterion will not enlighten management on an investment's ability to meet the first requirement. In order to make such decisions, criteria such as absolute profit and rate of return on investment are used. The outcomes of these criterion events are best expressed in the form of density functions, for which David Hertz[*] has developed a method of derivation. Usually, when outcomes of future events can be estimated, some subjective probabilities for the events can also be estimated, and, even though these are subjective in nature, they provide more information for better decisions than if uncertainty is assumed to prevail. Therefore, "robustness" cannot "replace" the traditional decision making criteria.

***Aid in planning***

But the concept of robustness can make a contribution to decision making. Long-range planning is becoming increasingly important, and future events, even though they may be uncertain, must be taken into consideration. The robustness criterion can aid the decision maker in taking these events into consideration in two primary ways:

First, the robustness data can be used as supplemental information for making initial investment deci-

[*]Hertz, David, "Risk Analysis in Capital Investment," *Harvard Business Review,* January-February, 1964, pp. 95-106.

sions. Two main alternative uses can be made of this supplemental information: (1) It may be used as the final criterion to break ties between alternative investment proposals, and (2) its importance may be elevated to the point where it is given a weight in determining the final ranking of alternative investments. How this weight is to manifest itself may vary with each firm.

Secondly, the technique may be used as it was in the example given in the paper, where it is used for selection of investment alternatives under assumptions similar to those in the example. In such a role it aids in the implementation of a sequential investment plan.

Robustness should not be considered as an alternative for the traditional methods of investment analysis but as a technique for providing additional information on which decisions can be based. The limitations on its value should be recognized, and restraint must be used in its application to the decision making process.

STEPHEN R. HEIMANN
*The Ohio State University*

**Clerical Cost Control** by BRUCE PAYNE, *Business Automation*, November, 1968.

*The author argues that management can reduce clerical costs by 20 to 25 per cent through work measurement.*

Whereas work measurement techniques, including methods-time-measurement (MTM), are used to measure performance of over 80 per cent of all blue collar workers today, less than 5 per cent of white collar workers are measured against accurate standards. By 1970, however, it is expected that there will be 37 million white collar workers as compared to 30 million blue collar employees.

Mr. Payne recommends the use of MTM to measure office workers' performance, although the basic "time measurement units" (the time it takes to perform basic tasks) must be broader than for blue collar workers because of the varied nature of office workers' tasks. Such a program must be permanent, with work standards audited frequently; it must be accepted by all levels of management and workers; and it must be positive (management improvement) in approach rather than negative (cost cutting).

PAUL PACTER
*AICPA*

**Internal Auditing and the Information Explosion** by R. L. MARTINO, *The Internal Auditor*, March-April, 1968.

*The electronic computer has been the catalyst for today's technology and information revolution. The production of knowledge and information as a service industry is rapidly overtaking manufacturing as the primary economic focus of attention. The manager, faced with this mass of data, needs help in translating facts into information that is relevant and meaningful to him. The internal auditor can augment his traditional role by assuming the role of translator, or management advisor.*

The auditor's role has been changing over the decades. From the historic responsibility of the post audit to determine the operating effectiveness of a company's control system, his role has extended to determining whether the requirements of the total control system are being effectively met and to appraising the adequacy of the system in meeting management's needs.

The advent of the computer has accelerated the information explosion. The challenge of management today lies in its ability to separate out from the voluminous data which have been thus generated the facts that provide pertinent and meaningful information as a basis for successful decision making.

To demonstrate his thesis, the author first analyzes a typical business decision as composed of three steps—anticipation (or forecast), preparation, and action. He maintains that the main problem area centers around the forecast; costly errors may result if there is no control mechanism to minimize the gap between actual and forecast events when deviations occur. According to the author, the key to a successful decision is reaction time —the time necessary for this adjustment.

### *New tools*

Three new operating tools are invaluable aids in solving this problem:

(1) the electronic computer to perform complicated arithmetic calculations and logical selection
(2) mathematics as a common language in business to formulate and solve problems
(3) systems analysis.

How does the auditor fit into this picture? His involvement in three associated problem areas can prove very beneficial. The increasing complexity of computer equipment (hardware) and systems design and the problems of comprehending computer language have created the need for an enlarged scope of audit verification. This requires an increase in the auditor's educational requirements to enable him to understand not only the computer itself but also the way it is operated by the company's personnel.

### *New language needed*

This author feels that there is a need for a new universal language to better identify the interrelationships within a system and to replace the present, to him, inadequate, method of block diagramming, which does not facilitate interpersonal communications. Decision tables are recommended as a common language and visually oriented reports to simplify communication between technician and manager.

He further proposes design of management information systems (MIS) oriented toward management's objectives and requirements. However, first the manager must have an appreciation of the computer's utility as a day-to-day tool in the production process and of the paramountcy of the design of, rather than the hardware in, the system.

### *Key elements*

The key elements in an MIS, says the author, are the communication of information—facts and figures—to management and its dissemination, together with an explanation of individual responsibilities, to all concerned.

Management needs pertinent, up-to-date information to evaluate the risks involved in a decision and a feedback process to inform it of the outcome.

### *Basic features*

The author outlines three principal features that an MIS must have. It must be capable of:

(1) measuring the effect of a decision ex post or ex ante
(2) measuring changes in the external environment
(3) permitting timely reaction to potential problems.

The computer can help the system meet these requirements by testing decision patterns prior to selection of a course of action and checking decisions during the actual processes they affect.

Auditing is part of this entire management information processing system. The system's control is the subject of the internal auditor's evaluations; its performance, that of the manager's.

The problems involved in establishing and auditing a management system—a system designed to reinstate the manager as the holder of the corporate reins by providing him with the necessary pertinent information—provide the theme for this article. The internal auditor appears as the middleman between technician and manager—the new translator.

IVAN N. GELLERT
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**Assignment of Costs to Joint Products in a Decentralized Firm** by MYRON J. GORDON and CHARLES YING, *Journal of Business,* July, 1968.

*A model is presented which assigns costs to joint products for transfer pricing purposes so that the decision on the level of marketing expenditures made by the sales manager of the product, who has been delegated authority over marketing policies, will be goal-congruent to the central authority's goal of maximizing profit. Rules for the assignment of a transfer price are developed so that the level of sales decided upon by the sales manager will be the same as that determined by the central authority.*

The very restrictive assumptions made by the authors in developing this model made it relatively easy to derive the optimal sales expenditure and the appropriate transfer price, given a certain level of expenditure, and to develop the proof of goal congruence of the decisions of the sales manager of a particular product. Elaborations of the model can easily be made by relaxing some of these assumptions, although the proofs of congruence may become involved. But this difficulty does not restrict the ability of the techniques presented to derive rules of transfer pricing, given certain conditions, whose use will result in goal-congruent decisions, which has been an old and basic accounting problem.

The values which are assigned as the transfer prices in the set of rules developed are not necessarily unique, and no reason is given for those values selected. In an actual application, external conditions such as the psychological effect of the price assigned would dictate which of the alternative values would be chosen.

The "certain conditions" previously referred to, under which the model is applicable, are that both the central authority and sales manager have the same knowledge about the demand function or its distribution. It might be said then, as pointed out by the authors, that the calculation of the appropriate level of expenditures by the sales manager is redundant and unnecessary since the central authority must also calculate it for the assignment of an appropriate cost. But for psychological and motivational reasons this redundancy may be acceptable or even preferred since it allows the sales manager to make the decision. The model provides a mathematical approach to the determination of transfer prices which should result in goal-congruent decisions, and it may inspire the creation of other more general models that will help solve the accounting problem of determining appropriate transfer prices.

STEPHEN R. HEIMANN
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**Audit Responsibility and Utilization of EDP Equipment** by P. R. ALLEN, *The Internal Auditor,* March-April, 1968.

*The auditor's task is to provide top management with a service. Yet changes in auditing theory have not kept pace with the rapid technological developments in the field of data processing, which have become a part of the auditor's environment. To fulfill his audit responsibility, the auditor must learn to utilize the capabilities and potentials of the computer.*

The author emphasizes that by using EDP equipment in his audit the auditor can realize important control benefits in addition to having much of the massive volume of detail audit work performed by the computer. A prerequisite for the success of such an engagement, in terms of management services, improvement of the quality of the audit, and substantial saving in man-hours, is a closer alliance between the operational auditing and management services divisions.

***Tests emphasized***

New audit techniques will be necessary if the computer system is to be successfully utilized. The emphasis will be on designing tests of the system's control aspects rather than of the human factors involved.

The author outlines three areas with which the auditor should be familiar to increase his comprehension of the EDP system:

(1) work flow charting–involving the symbolic representation of procedures
(2) testing techniques, including block testing, random sampling, and statistical sampling (random sampling with statistical measurement)
(3) hardware (the machines in the system) and software (the programs with which to operate the system).

***Procedures suggested***

In the actual audit and evaluation of the computer's performance, the author suggests the following procedures:

(1) employment of test checks to evaluate the quality of the data processing system
(2) use of special audit programs designed to examine the quality of the information output of the system through detailed tests, computations, and exception reports
(3) evaluation of the internal control of the entire physical maintenance and processing procedures in the system–this internal check to be built into the processing routines themselves.

The author maintains that with increased understanding of the operations of a computerized data processing system the auditor can utilize new developments, such as daily processing of exception reports, to achieve the dual purpose of using the computer as a continuous audit tool and performing a 100 per cent audit.

Though somewhat generalized in its approach, this article successfully points up the need for a new breed of auditor, instilled with a greater knowledge of, and insight into, the mechanics of the computer age and the benefits that accompany it. The auditing profession must adapt to this changing environment if it is to continue to provide a vital and flourishing service.

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