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What People Are Writing About

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BOOKS

Up the Organization by Robert Townsend, Alfred A. Knopf, Inc., New York, 1970, 202 pages, $5.95.

Full of sound advice on (in the words of its subtitle) how to stop the corporation from stifling people and strangling profits, this is the hottest business book of the year—and deservedly so. Unfortunately, however, although almost anyone can read and enjoy it, only corporate chief executives are really in a good position to put it to use.

Robert Townsend, as most people in the business world must know by now, is the man who took the then obscure Avis Rent a Car corporation and made it into the nation's best-known Number 2. He did this—if one is to assume that he did it by following the precepts outlined in this book—by encouraging delegation of authority and development of individual initiative and creativity and by tossing out organization charts, policy manuals, job descriptions, executive perquisites, and other bureaucratic habits to which contemporary American management is addicted.

Instead of using traditional expository style, Mr. Townsend presents his management philosophy in the form of a miniature encyclopedia, under nearly a hundred alphabetically arranged listings ranging from Advertising to Wearing Out Your Welcome. Most of the headings refer to things Mr. Townsend is against:

Assistants-to ("The only people who thoroughly enjoy being assistants-to are vampires"); computer "priests" (". . . most of the computer technicians that you're likely to meet or hire are complicators, not simplifiers"); the National Industrial Conference Board ("a sophisticated center of research on yesterday . . . its data about cor-

REVIEW EDITORS

In order to assure comprehensive coverage of magazine articles dealing with management subjects, Management Services has arranged with fifteen universities offering the Ph.D. degree in accounting to have leading magazines in the field reviewed on a continuing basis by Ph.D. candidates under the guidance of the educators listed, who serve as the review board for this department of Management Services. Unsigned reviews have been written by members of the magazine's staff.

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porate practices . . . a valuable source for ideas—on what *not* to do. When the vast majority of big companies are in agreement on some practice or policy, you can be fairly certain that it's out of date");

Employment contracts ("usually lose the men they are designed to hold. And hold those who have no other basis for staying"); Harvard Business School graduates ("the non-playing Captains of Industry . . . who, upon graduation, are given a whirlwind tour of their chosen company and then an office and a secretary and some work to do while they wait for one of the top three slots to open up"); job descriptions (strait jackets);

More pet peeves

Bureaucratic inertia (". . . the British created a civil-service job in 1803 calling for a man to stand on the Cliffs of Dover with a spyglass. He was supposed to ring a bell if he saw Napoleon coming. The job was abolished in 1945"); management consultants ("The institutional ones . . . waste time, cost money, demoralize and distract your best people, and don't solve problems. They are people who borrow your watch to tell you what time it is and then walk off with it"); marketing departments (". . . like planning departments, personnel departments, management development departments, advertising departments, and public relations departments—are usually camouflage designed to cover up for lazy or worn-out chief executives");

Memoranda (" a one-way street"); mergers, "conglobulations, and joint failures"; mistresses; moonlighting ("scatters energy"); nepotism; Muzak; company planes; conventions; house organs; organization charts ("rigor mortis"); policy manuals; purchasing departments; racism; secretaries; and secrecy ("a child's garden of diseases").

Actually, Mr. Townsend is not against everything. He is in favor of budgets, for example, provided they are prepared by operating divisions rather than "prepared on high and cast as pearls before swine."

And he seems to approve of controllers: "Controllers are professionals. They don't gossip. Treat them as full members of the inner council . . . let . . . them have a good look at new ideas before they're implemented. If controllers are. . . treated like plumber's helpers, they'll get their kicks making ends instead of means out of their reports and their systems—and you can't blame them."

Actually, what Mr. Townsend is against is bureaucracy and all its symptoms. As he charges in an introduction labeled (despite his expressed aversion) "Memorandum": "In the average company the boys in the mailroom, the president, the vice-presidents, and the girls in the steno pool have three things in common: They are docile, they are bored, and they are dull. Trapped in the pigeon-holes of organization charts, they've been made slaves to the rules of private and public hierarchies that run mindlessly on and on because nobody can change them."

The positive side

What Mr. Townsend is for is the late Douglas McGregor's Theory Y: People want to work. Let them. "If they commit themselves to mutual objectives, they'll drive themselves more effectively than you can drive them" but "only to the extent they can see ways of satisfying their ego and development needs." Or, as Mr. Townsend's memorandum puts it, ". . . make a . . . company . . . operate as if people were human. All you need is a talent for spotting the idiocies now built into the system."

Some of Mr. Townsend's recommendations for eliminating idiocies seem to have been written with tongue in cheek. For example, to shorten a meeting, "hold the meeting with everybody standing up."

Others are simple and practical: "Statements comparing budget to actual should be written not in the usual terms of higher (lower) but in plain English of better (or worse) than predicted by the budget. This eliminates the mental gear changes between income items (where parens are bad) and expense items (where parens are good)."

When Mr. Townsend pleads for Theory Y his style loses much of its flippancy. Overall, however, the tone of the book is light and lively. This seems to be partly because Mr. Townsend's own management style is iconoclastic and partly because he wanted the book to be entertaining.

Entertaining it certainly is. Mr. Townsend has gone to great lengths to amuse—and with great success. Underneath it all, however, he is clearly in deadly earnest. More's the pity, then, that the kind of management Mr. Townsend would like to see must—given the current ubiquity of the pyramid structure—be developed from the top down. Mr. Townsend is likely to spark a real revolution in management only if every reader of this book also sends a copy to his boss.

Financial Executives Handbook edited by Richard F. Vancil, Dow Jones-Irwin, Inc., Homewood, Illinois, 1970, 1,314 pages, $27.50.

This encyclopedia of the corporate financial executive's job, written for—and for the most part by—men who actually hold such a job, comes close to being what its editor aimed at, "a codification of the state of the art."

Although *Financial Executives Handbook* is a hefty volume, 1,314 pages seem few enough when balanced against Professor Vancil's goal of producing "a compendium of current knowledge" in the field of financial management.

Certainly the book's (relative) brevity does not stem from any paucity of available knowledge in this field. Rather, it is the result of the relative sophistication of the authors' discussion of their assigned topics. No elementary material has been included; this book is aimed not at the student or beginner but at the "mature, experienced executive with a broad general knowledge of the field" for his use in reviewing and updating his understanding of specific topics.

Knowing businessmen's distrust of academic theorists, Professor Vancil was careful to enlist his 73 authors only from the world of financial practitioners. He boasts that all the chapters were written by "practicing businessmen." Actually, only about two-thirds are corporate financial managers; the others are public relations men, CPAs (seven from the Big Eight firms), consultants, insurance brokers, or executives of financial institutions writing as specialists rather than as managers. But none is an academician.

The theorists got their representation on the board of consulting editors, which reviewed the manuscripts. More than a third of the 32 consulting editors were professors.

The book's practical orientation is also reflected in its organization structure. The 66 chapters are grouped into ten major sections, "roughly attempting to parallel the way that many financial executives have organized their offices." The seven functional sections (preceded by two introductory sections on the financial executive's broad management and managerial responsibilities and followed by a section on his external responsibilities) are as follows: financial and economic analysis; planning and budgeting; information technology; control, measurement, reporting, and evaluation of operations; asset management and control; financial structure; and financial accounting policies.

In a book intended to be used as a reference the ideal organization structure is impossible to find, for some subjects inevitably will belong under several headings, but the one Professor Vancil has chosen is as satisfactory as any. Those topics (for example, taxes, organization, staffing) that come up in several functions are cross referenced.

The "real initiators" of this project, according to Professor Vancil's introduction, were the eight members of his editorial advisory board, which included five corporate financial vice presidents as well as Leonard M. Savoie, executive vice president of AICPA; Marvin Bower, a director of McKinsey & Company; and Benjamin R. Makela, editor of *Financial Executive*. All deserve much credit for a book that is a bargain even at its relatively high price.

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Briefly listed

Planning and Control for Profit by RALPH F. LEWIS, Harper & Row, New York, 1970, 230 pages, $6.95.

This updated edition of Mr. Lewis' brilliant guide to accounting for the nonaccounting executive (*Management Uses of Accounting*, published in 1961) differs from the first chiefly in the addition of nine chapters on operations research. Mr. Lewis, a partner of Arthur Young & Company, is also a former assistant managing editor of *Fortune*, and he knows how to explain complex ideas simply and interestingly.

Standard Methods for the Mediocre Science Manager by M. B. ETTINGER, Ann Arbor-Humphrey Science Publishers, Inc., P. O. Box 1425, Ann Arbor, Michigan 48106, 1970, 86 pages, $3.75 (paperbound).

The author, a pollution control scientist who describes himself as a mediocre manager, has put together this collection of satirical essays on technical management from some of his own luncheon talks. Sample topics: The Pragmatism and Pitfalls of Dynamic Procrastination, The Practical Application of the Unproductive Committee, How to Prepare an Extemporaneous Talk, How to Plan an Inconsequential Research Project, How to Discuss Sewage with Women. Like many such efforts, the book is not as funny as the author probably would have liked it to be, but the advice concealed within is eminently sound.

Get Ahead in Business! The Ambitious Man's Guide to Upward Mobility and How Top Management Makes It Happen by AARON SCHEINFELD, Hawthorn Books, Inc., New York, 1969, 256 pages, $6.95.

Despite its title, this description of what top management wants in the way of executives and how to fit the model is more factual and less hortatory than most. The author is chairman of the board of Manpower, Inc.

Applied Linear Programming by NORMAN J. DRIEBEEK, Addison Wesley Publishing Company, Reading, Massachusetts, 1969, 230 pages, $11.50.

Technical in style but practical in content, this book describes how mathematical programing, especially linear programing, can be applied to operational problems. Algorithm development and mathematical proof are de-emphasized in favor of detailed descriptions of standard general purpose routines and other operational procedures useful in solving LP problems.

MAGAZINES

Agencies Look to the Computer to Find the Errors of Their Financial Ways by GEORGE YOUNG, *Industrial Marketing*, April, 1970.

Advertising agencies are making greater use of cost accounting techniques in the search for solutions to the dimenution of profits.

The atmosphere of relatively unfettered creativity that prevails in advertising agencies has not generally been compatible with the ordered precision required by cost accounting procedures. Thus many agencies have had poor information about the costs involved in providing the services required by clients. A developing profit squeeze, however, is forcing agencies to install cost accounting systems designed to provide detailed information on costs, particularly the costs associated with services performed by the people in the agency.

Computer systems stressed

This article concentrates on the computer-based systems used by certain management information consultants. The information provided by such computerized cost accounting systems may be used by an agency in cost reduction programs and in studies to determine more accurately the usual billable time involved in different job classifications.

A significant benefit to agencies of the availability of detailed cost information is the ability to explain to clients the various costs to the agency involved in providing the services requested. Clients, confronted with cost estimates based only on traditional unsupported estimating formulas, tend to get the impression that advertising agencies are overpaid. This article suggests that accurate cost accounting information will often show that the agencies are underpaid.

The traditional commission method of compensating agencies is often detrimental to the profits of industrial advertising agencies working with the lower-priced media. Some agencies are turning to a fee system, which provides compensation related to services actually performed. The availability of cost data will enable agencies to make arrangements with individual clients for fair compensation realistically related to the costs of the services performed.

One advertising executive quoted in the article predicts that the role of the advertising agencies in the 1970's will become that of consultants paid for services rendered. Thus, agencies would be paid the true value of their services rather than being paid by a third party, the media. The result, according to this executive, will be that "those of us who are good enough will make money, and those who aren't won't make very much."

As consultants, the agencies will have to relate fees to costs. Guesswork will not be adequate, and increasing profits will come from the use of cost control techniques. Then it will no longer be valid to say that agencies make less money than their clients because they haven't put to work the kind of sophisticated management information and control techniques used by most of the clients they serve.

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A Theoretical Structure for Independent Audits of Management by HAROLD Q. LANGENDERFER and JACK ROBERTSON, *The Accounting Review*, October, 1969.

The authors observe that there is an apparent demand for more relevant indicators of managerial ability and that ". . . a comprehensive attestation of managerial ability and related information would be well received by investors and investment advisors." Along this line, the article presents a tentative theoretical structure for the conduct of independent audits of management.

The structure for independent management auditing presented by the authors contains several levels of concepts and postulates similar to the theoretical structure proposed by R. K. Mautz and Hussein Sharaf for financial auditing in the American Accounting Association's Monograph No. 6, *The Philosophy of Auditing*. Under the broad concept of attestation, there follow three levels of concepts and postulates: "Pre-Postulate Concepts," "Hypotheses of Independent Management Auditing," and "Post-Postulate Concepts of Management Audits."

Pre-postulate concepts

"The pre-postulate concepts," according to the authors, "are broad philosophical matters that underlie the specification of postulates in all auditing theory." As such, the six concepts included here are identical to those previously presented for financial auditing. They are: 1) evidence, 2) due audit care, 3) fair presentation, 4) independence, 5) ethical conduct, and 6) competence.

Hypotheses

The hypotheses suggested in the category of independent management auditing ". . . are admittedly tentative since most have never been tested, much less even discussed, in an auditing context." Using similar justification, indeed almost identical wording, the authors compare their "Hypotheses" with the Mautz-Sharaf "Tentative Postulates of (Financial) Auditing." The "Hypotheses" include the following:

1. Management representations and the bases for decisions are verifiable.
2. There is no necessary conflict of interest between the auditor and the management of the enterprise under audit.
3. The management representations and other data relevant to the management system submitted for verification are free from collusive and other unusual manipulations.
4. The existence of a satisfactory system of management controls eliminates the probability that management representations and information upon which managerial decisions are based are subject to unusual manipu-

lation in their promulgation to either internal or external recipients.

5. Consistent awareness of, and adherence to, the standards of rational management contribute significantly to the efficacy of the management system for achieving organizational goals.

6a. In the absence of clear evidence to the contrary, it is presumed that the internal management system is relatively resistant to change and will function in the future as it did in the immediate past.

6b. In the absence of clear evidence to the contrary, it is presumed that the external environmental variables that affect the firm will not necessarily hold for the future as they did for the past.

7. When examining management representations for the purpose of presenting a comprehensive disclosure thereof, the auditor acts exclusively in the capacity of auditor.

8. The fact that internal and external parties to the firm will rely upon the disclosures made by the independent auditor imposes commensurate obligations upon him.

Post-postulate concepts

The post-postulate concepts, which derive from the "Hypotheses" and "Pre-Postulate concepts" listed previously, refer to the nature of evidence concerning management efficacy and disclosure. Included under this category are: 1) management representations, 2) bases for decision processes, 3) the management planning and control system, 4) standards of rational management, and 5) comprehensive disclosure of information.

The Mautz-Sharaf tentative postulates of (financial) auditing derive much of their philosophical justification from a reasonably well defined set of "post-postulate concepts," i.e., 1) financial statements, 2) financial data, 3) the internal control system, 4) generally accepted principles of accounting, and 5) opinion with respect to fair presentation.

These authors, on the other hand, acknowledge that ". . . the post-postulate concepts presented in this paper still retain the characteristics of undefined terms . . ." and that ". . . the topics of management representations, decision systems, management control, standards of rational management, and comprehensive disclosure remain as potentially fruitful areas for investigation."

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Computers Can't Solve Everything by Tom Alexander, *Fortune,* October, 1969.

The use of computers is becoming more and more commonplace in the business community. In 1969, some $7 billion was spent by American industry on computers and peripheral equipment. Yet, despite the businessman's infatuation with computers, a question exists as to whether or not he is really getting his money's worth. A study conducted for the Committee on Science and Astronautics of the House of Representatives reported that "as more and more business operations become more mechanical, or computer based, fewer companies actually use the computer for a cost-effective tool."

Mr. Alexander discusses several of the factors motivating executives in their rush toward automation and also the reasons why many of the sophisticated new systems simply are not paying off. The essence of the problem, as stated by one computer expert quoted in the article, is that "computers are oversold and underemployed."

The promise

The success of the computer in dealing with clerical tasks in the mid-fifties led to great enthusiasm for applying the computer to the higher managerial activities. The potential of computers for mathematical processing led many management theorists to believe that by developing mathematical models of the executive decision process the computer could actually make management decisions.

To apply the computer to higher managerial activities, it was first necessary to quantify the management function. Thus a new discipline, "management science," evolved in an effort to quantify the art of management.

The 1950's were an era when no task seemed too great to be overcome by the principles of science. Many businessmen therefore believed that the computer would soon be able to do all that the management scientists claimed.

A common belief was that the company without a computer would soon fall behind the computerized competition. Corporations began to buy their computers not merely to perform the tasks at hand but with additional capacity to handle the applications which they believed were lying just over the horizon.

The problems encountered

Mr. Alexander identifies several problems that developed to plague the concerns which were gearing up for the computer demands of the future. First, management scientists were not able to quantify many top-level management decisions. Decisions involving people, politics, motivation, and policy do not readily lend themselves to quantification. Even the data bank concept of a total information system was difficult to apply because of the inability of managers to construct a mathematical model describing their intuitive decision processes. The quantitatively oriented computer people, on the other hand, often lacked an indepth comprehension of the problems of management.

Another problem arose because the machinery acquired in anticipation of future needs often was not suited to the applications discovered later. In these cases, original machinery capabilities remained unused while additional machinery was acquired for the new applications.

Still another problem in the efficient application of computers has been the lack of available software. Programers, systems analysts, and management scientists are a rare and costly commodity. Getting models built and programs written for new computer applications may be a costly, time-consuming process. Because of software shortages, much of the sophistication of the third generation computers has not been utilized. One knowledgeable source estimates that about half of the System/360's now installed are using software designed for second generation computers. Although third generation computers are cheaper to lease or buy in terms of capacity, inefficient use of the machines' capabilities leaves these computers hardest pressed of all to pay their way.

Computers are useful

Mr. Alexander does not imply that computers do not serve many useful functions in the business community. Certain industries, such as railroads and utilities, lend themselves readily to computerized systems that may provide information necessary for many operating decisions. In industries in which performance is highly predictable, entire operating cycles may be accurately simulated by computers. Such simulations, however, are dependent upon the accuracy with which variables are forecast.

NASA's Project Apollo has caused many aerospace contractors to develop sophisticated management control systems, which will have future applications in the business community.

Time sharing projects are expanding greatly in popularity, providing computer users with professional service and sophisticated capabilities at a fraction of the cost of an in-house computer. General Electric executives are even predicting a day when there will be time sharing utilities and in-house computers will be a thing of the past.

Major points valid

However, the great usefulness of the computer does not affect the validity of Mr. Alexander's major points. The maintenance of computer systems with capabilities more sophisticated than necessary for the tasks at hand is both costly and inefficient. Also, business is backing away from its belief that management decisions may be reduced to mathematical equations to be fed into the computer. Executives who wish to employ the capabilities of computers efficiently must realize that computers are only sophisticated management tools. A tool can assist but cannot replace the knowledgeable manager in the management process.

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Plant Security Headed for Computerized Trip by MARVIN SMALHEISER, *Information Week*, February 9, 1970.

A new way of using computers in plant security is outlined in this article.

It is often said that the uses of a computer are limited only by the imagination. In this article Mr. Smalheiser discusses the development of a system utilizing minicomputers and closed circuit television to perform the entry and exit functions for which guards are now responsible.

A person desiring admittance to a restricted facility would activate a mechanism to open the entry door of a booth. A timing device would also be actuated, set for perhaps 50 to 60 seconds.

If the person entered valid information, such as a proper employee number, into a terminal device within the time allowed, the rear door of the booth would open, admitting him to the facility. If he failed to do, an alarm would be sounded at the end of the allotted time period, and a guard at a central location would question the applicant via closed circuit television. Exit would follow basically the same routine.

A number of booths would be used to handle a heavy load. For instance, a thousand employees scheduled to arrive at the same time could probably be accommodated by two or three booths in parallel.

At a large plant employing anywhere from 10,000 to 15,000 employees a guard force of approximately 50 could be expected. Total salaries of the guards might approximate $500,000. Installation of the computerized system could be expected to cost $500,000. It should result in the reduction of the guard force by 50 per cent. System maintenance might amount to $20,000 to $25,000 a year, the author estimates.

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