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BOOKS

Conglomerates Unlimited: The Failure of Regulation by John F. Winslow, Indiana University Press, Bloomington, 1973, 296 pages, $10.

Conglomerates are endangering the future of our competitive market structure, this author says, and he asks why. He quotes extensively from public disclosures of national investigations to allow the corporate leaders' own words to hang them.

This book makes for very exciting reading, enjoyable if the reader can divorce himself from the public that is being abused. Mr. Winslow was formerly counsel to the Antitrust Subcommittee of the House Committee on the Judiciary. Despite all the extraordinary testimonies the subcommittee produced in its two-year investigation, 1969-1970, no legislation has resulted from its investigations.

Mr. Winslow looks at the methods and motives for building conglomerate corporations; the function of the central, acquiring management; and the role of Government agencies.

Four acquisitions are described to illustrate how conglomerates are formed.

"The first method is for the conglomerate to convince some bankers that its acquisition program for corporate concentration can benefit them. . . . The conglomerate should not feel that it must choose a bank that conspicuously needs more business. Rather it should choose from the biggest. It should choose a bank run by David Rockefeller," Mr. Winslow recounts.

He describes how Gulf & Western's mergers were made possible by Chase Manhattan in return for moving acquired companies' banking to Chase and informing the bank which companies G&W would attempt to take over.

At the Hearings on Conglomer-

REVIEW EDITORS

In order to assure comprehensive coverage of magazine articles dealing with management subjects, Management Adviser has arranged with seventeen 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 Adviser. Unsigned book reviews have been written by members of the magazine's staff.

ate Corporations, Gulf & Western's vice president, and former Chase Manhattan loan officer, Roy Abbott was asked by the House Antitrust Subcommittee counsel if it was his duty to keep Chase informed of proposed mergers and acquisitions prior to the announcement of such actions in the newspaper.

Mr. Abbott replied, "Occasionally, yes. It would have been much the same as if I had gone to a neighbor and said, 'Look, I am going to extend my house and [it's] going to cost about $5,000, can you lend me $6,000 to be on the safe side,' and 3 or 4 days later he would look out the window and see a new car . . . my neighbor would be very upset. Very much in the same light we keep our banks informed of what we are doing as it will relate to our financial condition; obviously, we have loans, we have lending arrangements, and they are conditioned on what we have said we are going to be doing.

"If our plans change, obviously these are important facts which the bank has to know."

Profitability of acquisitions

Gulf & Western's executives have said the purpose of the conglomerate is to improve the management of the acquired companies. The House Antitrust Subcommittee secured profitability figures through 1969 for 11 of the 13 major G&W acquisitions. Eight of the 11 earned less in proportion to their assets under G&W control than under independent management, Mr. Winslow reports.

Another method for conglomerate growth is for the acquiring company to pay the owners of the target company in cash and then to transfer the debt from the cash outlay to the same company upon taking control, the author explains. He uses the case of Ling-Temco-Vought, Inc., and Wilson & Co. to illustrate this method. Before the merger Wilson's net worth was $125 million. LTV transferred to it $50 million of the acquisition debt and diminished the company's net worth by 40 per cent.

"LTV management announced to all shareholders that it had 'strengthened' Wilson & Co. by 'financially innovative actions.' If to reduce shareholders' earnings by transferring to them equity and debt obligations amounting to more than a third of a company's net assets without adding one cent to those assets is to strengthen a company, then that statement is plausible," Mr. Winslow observes.

Conglomerates can grow in a third way. They can secure, perhaps with debt securities, a company with excess liquid reserves and use those reserves.

"Great American Insurance Co. had never paid a dividend of more than $2.50 per share. On January 14, 1969, during the first year of control by National General (owner of 98 per cent of Great American stock), the insurer paid a dividend to National General of $55 per share. In all, $173 million. The majority shareholder thus shaved the reserves down to the very limit required by law as minimum protection for policyholders," the author states.

The fourth method of conglomerate growth that Mr. Winslow describes is "to accept a call from the Pentagon some day, informing one that the army, by granting contract price increases, has in effect delivered an acquisition to the conglomerate." This is how Memcor, Inc., became part of LTV, he states.

Mr. Winslow questions the purpose of the conglomerate headquarters. From figures made available at the Hearings on Conglomerate Corporations, added management efficiency does not seem to be proved by the declining post-merger performance of the acquired companies.

"If there is a lesson to be derived from the examination of the three acquirers [Litton, LTV, and ITT] it is strengthened by the fact the one conglomerate which did not acquire for the purpose of securing anticompetitive advantage has fared least well. LTV has undergone reorganization and partial liquidation."

Mr. Winslow maintains that rather than transferring general management ability to its subsidiaries, Litton transfers a technique for securing Government awards. The conglomerate was able to obtain Navy contracts for the construction of nine amphibious helicopter-carrying assault ships and thirty DD-963 Spruance-class destroyers for a shipyard it didn't have in operation yet.

Agencies' control unexercised

Neither the ICC, SEC, IRS, nor the Justice Department are using their regulatory powers to their full extent to protect the public against industrial consolidation, the author states. He gives examples of the various agencies' lack of control.

One of the examples he cites is the IRS grant of tax exemption under Section 368 to ITT's acquisition of Hartford Fire Insurance Co. This exemption is granted to legitimate corporate "reorganizations," Mr. Winslow writes. A reorganization being an exchange of voting stock between the owners of two combining corporations, not the cash purchase of the target company's stock by the acquisitor.

"The transaction which the IRS identified as a sale was ITT's temporary transfer of the Hartford stock to an Italian bank, Mediobanca of Milan. In fact, however, the shares passed from ITT to Mediobanca—and after the ruling was secured, back again from Mediobanca to ITT—without even the alleged purchaser's payment of a purchase price," he states.

On March 6, 1974, the IRS revoked its 1969 tax ruling on the ITT-Hartford merger. So it seems the IRS has come to view the situation in the same way Mr. Winslow does.

A powerful picture of the few controlling the many has been drawn by Mr. Winslow. Perhaps his picture is not always an objective one. Not everyone will agree with it. He draws on some of the colorful commentary of the business press and quotes it as if it were more than opinion. But the hearings testimonies he presents were originally uttered as fact and it is hard to believe responsible executives actually admitted what they did.

This book is a real cops and robbers thriller with a twist: The robbers usually win.

You Can Profit from a Monetary Crisis by HARRY BROWNE, Macmillan Publishing Co., Inc., New York, 1974, 386 pages, $8.95.

This might be the premier how-to-do-it book of the year. How to do it in this case encompasses how to get out of rapidly depreciating American paper currency and move your assets out of this country into a solid Swiss bank.

Not only depreciating American paper currency, but valueless real estate, insurance policies, stock market investments, etc., are bad risks. Mr. Browne is convinced a severe recession in this country is inevitable, that everything the Government does to avoid it makes it all the more inevitable, and that Government intervention in any part of market operations is always lethal. Swiss banks, being almost entirely free of Government interference, not being required to report anything to the Government, and holding their currency in Swiss francs (which have substantially higher gold backing than dollars) thus get his highest approval.

To say Mr. Browne is an ultraconservative in money matters is putting it mildly. But at least he is consistent in his theories. Government intervention means tariffs, import quotas, and depletion allowances, as far as he is concerned, as well as free medical care. All are bad.

Mr. Browne's main thesis is that gold and silver are the only true monies; paper currency is worthless except as a receipt for gold or silver. Since the gold backing for the dollar has almost completely vanished, the dollar is the most worthless kind of paper money and could plunge precipitously overnight in terms of other currencies. The solution: convert every available dollar into a hard currency (one freely convertible into gold) just as soon as you can before the Government forbids exporting dollars.

This thesis, which may be dubious economically but which certainly has some vestiges of truth, is reinforced by the matter-of-fact details Mr. Browne loads into his book: why a Swiss bank is best for your money, even if you want to have your account in some gold-backed currency other than Swiss, like Dutch guilders or Austrian schillings (both excellent investments according to Browne); how you can open a Swiss bank account without leaving this country; the names and addresses of Swiss banks; buying gold bullion through the bank; buying gold bullion on margin through the bank. The dangers of holding currencies with even higher gold backing than the Swiss franc or the Dutch guilder, like the Lebanese pound or the South African rand, are also discussed.

A chilling logic

Granted Mr. Browne's economic theories, which are explained at length in the first portion of the book, "You Can Profit from a Monetary Inflation," takes on a chilling logic. Listing 17 points on a nation's progress through inflation to total monetary disaster, the author lists as Point 5:

"Eventually, inflation will be noticeable on a monthly basis, instead of just annually. A consumer may notice that an item he buys regularly has gone up in price several times during a few months. If that happens with a number of things he buys, inflation has reached an advanced stage."

Do the symptoms sound familiar? They should. The author estimates the United States had reached this stage by fall of 1973. From that point on, according to him, unless the most Spartan Government action is taken, runaway inflation is usually inevitable.

The solution: Swiss banks

The solution: Swiss bank accounts. They're legal; they don't have to be reported to the U.S. Government unless any single deposit exceeds $5,000.

And here Mr. Browne gets into the most fascinating part of his book. A bank money order for $5,000 does not have to be reported, he points out ingenuously; so several $5,000 money orders on successive days can build up quite a respectable balance in Swiss francs, or Dutch guilders, or Austrian schillings. All you have to do is tell the Swiss bank what strong currency you want your weak dollars converted to.

The profit doesn't come mainly through interest paid to you; it comes from the steady appreciation of the foreign currency against the dollar. This morning, for example, Swiss francs were worth 33¢ in American currency. A year ago they were worth a fraction over 30¢ apiece. A ten per cent increase in one year's time in a bank acount is not bad, and, according to Mr. Browne, we have not yet reached the state of runaway inflation. When we do, the sky's the limit as far as he's concerned. A value of $1.00 or $2.00 by the end of the year for the Swiss franc doesn't seem at all improbable to him.

From this point on Mr. Browne's advice becomes more and more pragmatic. His counseling about making separate $5,000 deposits on successive days, rather than transferring $15,000 all at once is quite straightforward, his advice about reporting foreign interest or appreciation to the U.S. Government is ambiguous: "It's up to each investor." His advice about buying gold bullion, strictly forbidden to U.S. citizens, is direct: "Buy it through a Swiss bank if you don't mind a little short-term risk." It can't do anything but increase in value over the long term; it's perfectly safe; and there's no way the United States government can learn about it unless your holdings are so enormous it would pay U.S. authorities to bribe a Swiss bank employee to reveal them. "Bribe" because it's against Swiss law for any bank employee to reveal anything about a customer's holdings or identity unless a (Swiss) criminal charge is involved.

Mr. Browne's theories go off into the really wild, blue yonder as his book continues. He gives advice on how to buy gold in Canada and transfer it to the chosen Swiss bank by courier if the Government *in extremis* absolutely bans Swiss bank accounts for American citizens, and the best way to stock a retreat if the American inflation reaches the dimensions of the post-World War I German experience (have lots of canned goods, liquor, and cigarettes). The canned goods are for nourishment; the liquor and cigarettes for bartering purposes.

The trend continues

Mr. Browne's picture of a doomsday world sounds impossible for a nation that only a few years ago had the "world's strongest currency." A lot of water has gone under the bridge since that time, however, and, according to Mr. Browne, nothing has occurred to change the downward trend of the dollar.

One amusing note in a grim and frightening book, someone (undoubtedly Macmillan's legal counsel) has stipulated that the book carry a warning, in an obscure spot on the page usually reserved for the copyright notice and Library of Congress listing:

"In dealing with any transaction whose legality may be questionable, the reader should obtain the advice of a lawyer."

Mr. Browne, fortunately, lives in Vancouver where the wrath of U.S. authorities is meaningless.

Managing the Socially Responsible Corporation by MELVIN ANSHEN (Editor), Macmillan Publishing Co., Inc., 1974. 256 pages, $10.95.

Columbia University's Garrett Lectures on Managing the Socially Responsible Corporation, delivered in the fall and winter of 1972-3, are the substance of this book. Professor Anshen has edited the presentations and includes his commentary at the end of each.

"American society is in a stage in its development when it needs, expects, and is beginning to demand a range of business behavior radically different from the previously accepted and approved pattern of business performance," Professor Anshen writes. The speakers in this lecture series agree with him and suggest that businessmen work with the change rather than against it.

Economist William J. Baumol said he does not believe voluntary social action is the answer. Rather, legislation should be passed so that firms are not acting socially responsible out of benevolence but out of a need to effectively meet competition.

"The two most important characteristics of such changes in the rules, as far as we are concerned, are that there is nothing voluntary about following them, and that it applies equally to all competitors. In this way, it frees management from pressures to undertake a role in the policy-making process which it has no reason to want and which society has every reason to fear. Moreover, it protects the firm from attacks by those who stand ready to undercut it at the first opportunity, an opportunity which would be opened were the firm to bow to social pressures for the voluntary pursuit of its social responsibilities," the economist said.

He suggested that businessmen cooperate in the design and implementation of effective legislative measures as the appropriate medium of social responsibility.

Clark C. Abt, president of Abt Associates, Inc., said, "Until government defines corporate social responsibility through legislation and enforcement, the definition must remain a matter for industry and individual company self-definition."

Despite what he admits to be "the still primitive state of this art of social auditing." Abt Associates, Inc., has undertaken this form of reporting. "It presents in a financial statement format, in dollar equivalents, the social assets and liabilities on the balance sheet, and the social benefits and costs and net social income on the income statement, accruing to employees, clients, local community, and general public. Many of the numbers, although all carefully computed on the basis of actual records and data, represent management judgments about the relationship between one set of data and another. In the absence of 'generally accepted' social auditing principles, there is no other alternative for an organization innovating its own system than to use its own best judgments concerning the meaning of its numerical data."

Dr. Abt blames the slow start in developing uniform social audit standards on both the GAO and the AICPA.

"The lethargy of the Congress's General Accounting Office in moving toward social audits of federal social action programs and policy research has not helped. The even slower response of the AICPA to the problem—despite numerous excellent articles on social audits and their components in the accounting journals—has also failed to give socially concerned CPA's much encouragement towards developing more uniform social auditing standards," Dr. Abt said.

[The AICPA does have a social measurement subcommittee that is working on the problem.]

Other speakers addressed the topics of the socially responsible corporation and labor relations, the public relations function, the political process, and management organization.

The Limits of Corporate Responsibility by Neil W. Chamberlain, Basic Books, New York, 1973, 209 pages, $10.00.

To the proponents of more social responsibility on the part of business, Dr. Chamberlain issues a tentative "no." Social responsibility is not the concern of private concerns, he contends, and, even if it were, their entire history and the social context in which they exist, would make it almost impossible for them to take meaningful action.

Dr. Chamberlain's book, divided into ten chapters, looks at the concept of businesses' obligation to work for social goals and finds it wrong or impossible to achieve on almost all scores. As much a social history as a business book, it presents an interesting, if not altogether persuasive, case for his thesis.

He presents the typical corporation in ten different environments and details the arguments against social responsibility in each. Beginning with corporations and consumers, he points out that consumer pressures in our society are consumption-oriented, that improvements in the social milieu can only be achieved if the consumer—the present consumer—insists on them, and is willing to forego other satisfactions in order to get them.

Whether he is willing to forego each satisfaction is an open question in Dr. Chamberlain's mind. He points out that Government regulations designed to persuade consumers to rebel against corporate evils could very well have done nothing but confuse the public. In response to an order of the Federal Trade Commission that advertisers back up their claims, the author quotes *Business Week*, June 10, 1972, on what happened:

". . . The Commission's idea is that by putting the documentation before a skeptical public, the press and consumerists will point accusing fingers at perpetrators of fraudulent claims.

"In practice, however, the idea has not worked out very well. Automobile manufacturers, for example, flooded the overworked FTC staff with a mass of technical material that has taken many months to evaluate. It concluded that 13 of 73 claims were not supported by empirical data, 21 had incomplete data, and 32 could not be evaluated at all because the terminology was too technical."

This could very well have been only the end result of a rapacious industry deliberately using confusing terms to delude a gullible audience, so the book uses another example. What is a manufacturer's liability for a product that could be hazardous only if his instructions regarding its use are ignored?

Court decisions regarding this question have gone both for and against the manufacturer, but it is a no-man's land at the moment.

Unwholesome demands

Finally, even if all product guarantees were made ironclad, if every item made were absolutely safe under any conditions, what of the ultimate consumer and his tastes, which he will satisfy with his dollars? Every possible study could show that the internal combustion engine has been a curse in this country: what difference will that make to a customer with money who wants an automobile? As long as he wants it—and in sufficient numbers—he represents a market. And it is the business of business to satisfy the needs or desires of markets at a profit.

Similarly with environmental improvements, Dr. Chamberlain quotes a 1971 report of the Council of Economic Advisers:

"Rising affluence is at least as important as a growing population in creating additional demands on the supply of natural resources." It further documents this conclusion by showing that per capita consumption expenditure in constant (1958) prices rose from $1,145 in 1929 to more than double that, $2,323 in 1970.

Yet how many consumers are willing to give up more and more automobiles, more and more color television sets, more and more Disneylands in terms of what the cost will be respectively in terms of the atmosphere, energy consumption, the ecology. Not enough, suggests Dr. Chamberlain. As long as environmental protection doesn't interfere with anyone's comfort, it's fine. But once it threatens unnecessary automobile travel, higher taxes (paradoxically), recreation, or more and more plastic playgrounds, it requires a long second look.

From this point the author goes into a long discussion of the influence business has had on the process of education in this country and traces the introduction of the business ethic into the very foundations of education through the free public education system developed during the latter half of the 19th century. Business was supreme and business could do no wrong. So as business gradually evolved into the corporate form, as it gradually spread beyond its original markets, became more systematized and more mechanized, there were no warning voices to cry "Halt." Yet as business became more and more systematized, work became less and less interesting. At the same time the products of the system became more and more desirable.

Work as a tradeoff

Now we have reached a state, the author says, where work is not an end in itself but merely a tradeoff. So many dull hours on the job produce the money to buy so many products the consumer wants or believes he wants. So many hours of drudgery balance so many hours of freedom.

But nothing is going to persuade the consumer to abandon the rewards for which he spends so many dull hours on the job.

The net result of all this, the author implies, is a kind of stasis, a situation where each side is immobilized. Industry cannot move except in the most limited way; the consumer can't move because anywhere he goes he will be depriving himself of one of the elements of the only meaningful part of his life.

Does the author see any solution to the dilemma? Possibly through joint action of corporations and the Federal Government. Anything else, he feels, would be completely ineffective. Only the national Government is large enough to cope with the needs and drives of the larger corporations. The Federal officials through regulations and flat and meaningful suggestions may still be able to control the situation.

One thing emerges clearly from Dr. Chamberlain's book: He doesn't think individual corporations can do it on their own anymore.

The People Factor: Managing the Human Climate by PHILIP LESLY, Dow Jones & Irwin, Inc., 1974, 268 pages, $9.95.

There is a segment of the business community that does not believe all aspects of social problems are quantifiable. Mr. Lesly is a member of this group.

"Today's highly trained managers are schooled in the mastery of tangibles. The computer is their prophet, and its testament is quantification. If it can't be counted it can't be measured, and if it can't be measured it doesn't count," Mr. Lesly observes.

"The intangible human attitudes that underlie the malaise of our times make our 'scientific' managers uncomfortable because they defy quantification. Yet their prophet says quantify, so the hatreds, jealousies, ambition, cruelties, greed, and other evils that are moving forces of today's world must be attacked as if they were numerical factors," he writes.

Later on in his book aimed at managers, Mr. Lesly explains, "Public relations people of experience and ability are sensitive to these intangible attitudes, know how to sense and test them, and are trained in judgment and techniques for dealing with them. They have a role to play in the total management function."

Guess what field Mr. Lesly is in?

Although he may well be right in what he says, do not look to this book to give you the inside track on testing "intangibles." Put your trust in experienced public relations practitioners is this book's advice.

No corporate communications program can be really effective without the participation of top management, he writes. "However, participation should not be defined as operation. The nuances and skills in this field are even more difficult for most managers to master themselves than the technical areas—which, after all, are tangible and thus in keeping with their training."

If you don't get insulted along the way, Mr. Lesly's book does have some interesting ideas in it.

Two opposed forces

One observation that he makes is that two electronic forces which characterize our age are moving in opposite directions.

"Our system is based on rules, like computers. Television is based on emotion. Society is based on history and tradition. TV is based on immediacy and novelty," he writes. "There are scarcely any elements in America that have been progressing as rapidly as these two electronic forces. The impact of both these revolutions is massive. They appear to be on a collision course."

Although he credits Marshall McLuhan with having sensed that television was drastically changing our society, Mr. Lesly feels Mr. McLuhan was wrong in believing the electronic media will replace the written word.

He also cites the professor as one of the underlying factors for the present breakdown in communication:

"Stress on audio-visual media makes it easy to feel educated and informed on a diet of superficial material. McLuhan fostered this by declaring the printed word dead, long before audio-visual media can provide the depth and variety needed."

Nor is Mr. Lesly in agreement with Harvard Business School's teaching methods (although he tactfully does not name the school). He writes, "The most prestigious of the graduate schools of business has based its operations on the 'case method.' This presumes that through intensive study of what has occurred in some organizations at some time in the past, and by exploring and discussing the ramifications of that case, a person will become trained in how to cope with similar problems in his future responsibilities."

The author maintains, "This pursuit of the outmoded practice of extrapolating future plans out of past patterns combined with the training that many managers receive leads to a widespread urge to comb the past in making plans. This is part of the urge to pin down all possible factors into tangibles and to make accurate tangible predictions."

Mr. Lesly's position is, "The past is a prologue—a source of clues to what lies ahead—rather than a script for future performance.

"All the grist that goes into decisions involving the human climate must be weighed and positioned by the sensitivity, the experience, and the judgment of skilled professionals. There is no effective substitute yet—including the attitudes and actions of the past—for the honed intelligence of the exceptional human mind."

Partial benefits

If you are in a position to hire a public relations firm, this book may help you in deciding what to look for. If you are not, this book at least serves to counterbalance the articles that maintain various mathematical management techniques can solve people problems.

Working by STUDS TERKEL, Pantheon Books, 1974, 589 pages, $10.

Over three years, Mr. Terkel interviewed dozens of people in different jobs to find out not only what they do but what they imagine and think they might be. It's a collection of insights culled from strangers in the crowd.

"In the thirties (as rememberers of 'Hard Times' remembered), not very many questioned their lot. Those rebels who found flaws in our society were few in number. This time around, 'the system stinks' was a phrase almost as recurrent as 'more or less'," Mr. Terkel observes.

People complained to Mr. Terkel about their non-recognition, the nature of their job, and being spied on by supervisors.

The author said he intentionally left clergymen, doctors, politicians, and journalists out of his book because "I felt that their articulateness and expertise offered them other forums." However, he has left out technical workers as well (scientists, engineers, computer specialists) who might have had some different ideas about what has been called an age of technology.

He did take time to speak to a young auditor in a large CPA firm. His statements are not likely to lure anyone into the profession. The CPA says he is viewed with fear and suspicion when he goes into a company to perform an audit. He also comments on the pressure to get things done and his firm's policy of either promoting people or letting them go, up or out.

"When people ask what I do, I tell them I'm an accountant. It sounds better than auditor, doesn't it? (Laughs.) But it's not a very exciting business. What can you say about figures? (Laughs.) You tell people you're an accountant—(his voice deliberately assumes a dull monotone) 'Oh, that's nice.' They don't know quite what to say. (Laughs.) What can you say? I could say, 'Wow! I saw this company yesterday and their balance sheet, wow!' (Laughs.) Maybe I look at it wrong. (Slowly, emphasizing each word) *There just isn't much to talk about.*"

The most interesting interviews are, perhaps, those with people you do not usually have the occasion to have frank discussions with. For instance, the low-level Government employee who clearly outlines her reasons for botching up a job; or the bank teller who explains that money is just "little pieces of paper" to her unless it is her own.

A conversation with a fireman closes the book. He had the same feelings the teller did but did something about them. "I worked in a bank. You know, it's just paper. It's not real. Nine to five and it's - - - -. You're lookin' at numbers. But I can look back and say 'I helped put out a fire. I helped save somebody.' It shows something I did on this earth."

Mr. Terkel believes there is an unquiet desperation in our work force and that people are aware of a sense of personal worth, or lack of it. His interviews tell it all.

Beginning Computer Glossary for Businessmen, by LARRY C. SCHMALZ, THOMAS A. BAILEY, and CHARLES J. SIPPI, Funk & Wagnalls Library of Computer Science, Funk & Wagnalls, New York, 1973, 246 pages, $6.95, and **Computer Glossary for Accountants and Bankers** by MARSHALL N. MCFIE and CHARLES J. SIPPI, Funk & Wagnalls Library of Computer Science, Funk & Wagnalls, New York, 1973, 247 pages, $6.95.

Here is an ingenious idea for a book series—excerpting a dictionary for special interest groups. The publisher already has issued glossaries for students and teachers, for engineers and scientists, for medical and health scientists, and for production automation specialists. One can foresee them for personnel men, office managers, marketing specialists, etc. The only question is whether owning the excerpts has any real advantage over owning the entire dictionary.

These two glossaries evidently represent an attempt to reduce the bulk of a standard dictionary of computer terms—in this case the Howard W. Sams & Co. Inc. *Computer Dictionary and Handbook*—by selecting from it only those terms deemed to be of particular importance to a special group.

The glossary for the businessman contains 161 pages of definitions ranging from "abort" to "zoned format"; the one for accountants and bankers (one wonders why accountants are combined with bankers rather than with businessmen) contains 195 pages of definitions ranging from "ABA" to "zone punch." About a quarter of the entries are duplications, although it would appear that many more of the terms considered worth defining for the businessman might be equally useful to the banker—or at least to the accountant.

Each book also contains extensive appendixes. In Appendix A the businessman is offered what the authors themselves describe as a "thought-provoking analysis concerning the impact of computers on business leaders." Appendix A for the bankers deals, not surprisingly, with the impact of computers on accounting and banking. (Rather sloppily done, it contains a paragraph on the computerization of the customer services operations of "the First City National of New York City.") The other three appendixes, "Basic Principles of Computer Systems," "Summary of Modern Computer Languages," and "Flowcharting—Abbreviations, Symbols, and Procedures," appear in both books.

The definitions, derived as they are from a reputable source, appear to be sound. The appendixes, while not inspired, are adequate.

The real question is why? Only the rare accountant, banker, or businessman who plans to carry his computer dictionary around in his briefcase (these glossaries, although reduced in bulk, are not pocket-size) would gain any substantial advantage by purchasing one of these volumes rather than the complete original.

Briefly listed

Understanding Computer Contracts by PHILIP J. SCALETTA, JR., and JOSEPH L. WALSH, Data Processing Management Association, 505 Busse Highway, Park Ridge, Ill. 60068, 52 pages, $9.50, DPMA members $6.50.

The stated goal of this analysis of standard commercial computer purchase and lease contracts is to develop a general model which will include all relevant provisions to be considered during negotiations for the EDP equipment. The booklet describes the standard contract's language characteristics, including syntax, semantics, and pragmatics. It compares the provisions of Government computer purchase contracts to standard commercial contracts. A selected bibliography is given.
This highly technical booklet is the first part of the DPMA's *Management Reference Series.*

MAGAZINES

Computer Systems Analysis and Design: A Perspective by P. A. RICHARDS, *The Australian Accountant,* August, 1973.

The purpose of the article is to describe, in brief outline form, the procedures of a systems analyst in a typical systems development study.

The scope of work performed by a systems analyst is limited, in most cases, by a company's traditional attitudes and monetary constraints. Whatever the boundaries of the job, the best results are obtained when a team of specialists from various fields are employed, bringing in outside experiences and expertise.

Mr. Richards divides the computer systems development study into six interrelated stages: Select, Record, Examine, Develop, Install, Maintain.

In the Select stage, computer studies are begun either because there is a particular problem which has developed in the business or through a review of the already existing system to adjust it to organizational changes. Priorities must be established in a rational manner; consideration has to be given to financial and personnel matters. Both long- and short-term return should be provided by selected projects. Projects should also provide for an effective and efficient personnel mix.

The feasibility report

A feasibility study is carried out in this stage to test project appropriateness in technical, financial, and organizational matters. Needed equipment must be available. The project must be financially worthwhile and financing ability must be shown. Disruption of the organization caused by the tentative system must be justified in terms of time and rate of changes. The results of the feasibility study are a formal statement of objectives, systems boundaries, authority, restrictions, and a detailed personnel and financial plan for the project; the conclusion of this primary stage is a decision to accept the feasibility report and proceed with the project.

The Record stage involves the establishment of procedural and informational requirements of the new system. The organization's personnel can provide information in these areas, but the systems analyst must be prepared to test the logical validity of this information. Flowcharting is a widely used method to record information on procedures and data requirements. Information must be recorded in order that it can be analyzed and communicated. The Record stage, then, maps out the environment in which the new system will operate in order to find constraints or motivations to productive action.

The process of analyzing the facts discovered in the recording stage and the possible solutions is the basis of the Examine stage. The output of the stage is a conceptual outline of a solution which meets the requirements of the Investigation stage and is compatible with overall company objectives and data needs of users. This output is in the form of a "problem specification." Alternative systems designs are compared to this problem specification to test the validity of their logic and their tentative acceptability.

When the "best" design has been determined through analyzing the pros and cons of all possible solutions, the Development stage comes into play. The design has been selected with full consideration of the technical constraints involved, as Mr. Richards feels these are of paramount importance after the initial stages. A second determining factor is whether to take a top-down or bottom-up approach. Will information needs and procedures be dictated by corporate policies or will personal functions and decision making receive major priority?

From the Development stage will come a detailed system design including all technical specifications, physical layout, program formats, and file designs; management would receive this detailed report for review.

In the Implementation stage the system is finally put into actual operation. Most activities in this stage are concerned with meeting deadlines which are established for changeover. Many changes will be made during this stage, especially in relation to user output requirements. A major area of consideration at this point is in the human relations and behavioral aspects of installing the system. A great deal of care must be taken to allow people to adjust to the new system so they will be willing to work with it.

The Installation stage is more

than likely going on concurrently with implementation. Essentially, installation involves actual movement of equipment to the site and the preparation of the site itself. Testing is also involved in this stage.

The final stage

The final stage, Maintain, is a continuous one. Maintenance activity involves close scrutiny of operations for any problems which could develop; these problems could range from the technical to training to behavioral.

Management determines system success by many different factors. Because a computer is involved, management may feel that mistakes or lateness are impossible or intolerable. Systems designers must know the demands to be made of the system and must be able to correct difficulties and ease minds at the same time.

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Governmental Accounting: A Total Systems Approach by E. REECE HARRILL and THOMAS E. RICHARDS, *Management Controls,* February, 1973.

The title of this article is misleading. Specifically, this article considers how a total systems approach can be applied to both governments and other types of organizations. For any organization, a computerized accounting system should be capable of providing management with the information necessary to make timely, rational, and informed decisions. But when diverse operations are performed by an organization, no single conventional set of data can effectively serve all levels of management. A successful system should be sufficiently flexible to be able to respond to the varied information requests of the different managers—a total systems approach.

How can such an accounting system be designed? The authors suggest that the critical feature of such a system is the account coding system. They suggest that the accounting system should be constructed in three steps: (1) establish a set of general ledger accounts; (2) classify these accounts by related events and actions; and (3) identify interrelationships among accounting data.

General ledger accounts

The general ledger accounts should be structured so that each account provides aggregated information. The accounts should be stated in broad terms and only a minimum number should be maintained. Each account should be classified into several subgeneral ledger accounts in order to provide "overall data commonality at higher management levels" while also reflecting the individuality or characteristics of management in each of operating units.

Classification

A further classification of ledger accounts by events and actions is needed to improve data flexibility. At this level of classification, each ledger account has additional code numbers to show where a particular accounting event was initiated, with which functional unit of an organization it is associated, and with which specific action it is involved. Specifically, classification criteria may be placed in a hierarchy, as follows: (1) accounting unit responsible for initiating an original action; (2) additional accounting subunits whose accounts are affected by (1) above; (3) time period reference; (4) specific functional unit of an organization; (5) specific activity; and (6) subactivity.

In short, all accounting events should be recognized at the lowest level of account coding hierarchy, then entered into the higher-level classification scheme, and finally aggregated in the general ledger accounts.

Once all events are processed on the basis of this classification code, interrelationships among accounting data may be readily identified. Thus, flexibility of accounting data for a variety of purposes is enhanced. Both the facility of identification and the degree of flexibility depends upon how far the classification scheme goes. The authors approximate the size of a code from 20 to 25 digit numbers.

Similarity and applicability

The nature of accounting systems does not essentially differ among organizations. Rather, a considerable degree of similarity exists because accounting is a measurement science concerned with economic activities of an entity of any type, governmental or nongovernmental. Like a government, an industrial organization has many operational units. A government engages in economic activities such as receiving and spending money, buying, selling, and producing; so does an industrial organization. As a result, governmental accounting is similar to industrial accounting in many respects, and the total systems approach can be applied to both with few modifications.

Once such an integrated accounting system is introduced and operated successfully, a single data base can generate different sets of information for different purposes and different management levels. As the authors note, information can be obtained by the selection of any combination of classification elements. By relating selected combinations, accurate and timely data are available so that various reports can be prepared in a variety of formats. Of course, all costs and benefits should be accounted for before such a computerized integrated system is introduced by a specific institution.

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Opportunities for Accountants in the Socio-Economic Area by SYBIL C. MOBLEY, *The CPA Journal*, December, 1973.

The author calls for an extension of accounting measurement techniques to account for a community equity in business enterprises and to devise a system of measurement commensurate with this task.

Dr. Mobley proposes the idea of a community equity to reflect the interest a community has in a firm. This equity arises from the common resources both share. In recognition of this equity, she proposes the accounting formula might be changed to read Assets = Creditor's Equity + Owner's Equity + Community Equity. The community's equity arises from the relationship between the owners and creditors of the firm and the community. Whereas the owners and creditors expect a dollar return, the community expects either (1) resource maintenance, (2) resource growth, or (3) resource distribution or reallocation. The community vests certain rights to a firm in issuing licenses and franchises and in return for these rights the firm acquires a performance responsibility.

Dr. Mobley calls for the discarding of accounting for only the "big splash" of the firm to the exclusion of the "waves and ripples" it sends out. The "waves and ripples" become large in certain circumstances and not only in the form of economic benefits, but also in the form of social and/or economic sacrifices. Today's society will no longer tolerate the ignoring of these sacrifices in reported accounting data.

The author stresses that not all risks of economic enterprises are borne by those who risk capital. In addition to the capital investors, the public risks the use of its natural resources to meet human needs, and the workers risk their energy conversion for the organization. Professor Mobley thus concludes that a highly developed economy must report not only the profits earned by the firm, but also the accommodation of human needs—both economic and social.

The measurement system needed for socio-economic data could be met by what the author calls "tendency." Tendency describes direction and magnitude and the author does not claim that it could be any more precise. She defends tendency by stating that the current measurement systems of dollars do not, in reality, provide us with more than a direction or magnitude of a firm. They do not tell us to invest an exact sum in cash.

The author concludes that we live in different times and in a rapidly advancing society. If accounting is to remain relevant to the needs of today, it must measure what needs to be measured, not what we have traditionally measured in the past.

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Caveat Executor: A Warning on Misuse of Linear Regression by LEE H. SMITH, RALPH W. ESTES, and THOMAS C. COMMITTE, *Managerial Planning*, January-February, 1974.

How valid are least squares analyses of historical data for estimation purposes? This article discusses some of the pitfalls that await users of simple linear regression models who do not critically examine the applicability of the model to their specific problems.

Since corporate decision making is necessarily concerned with predicting future events, the conscientious planner attempts to reduce the uncertainty of his task by utilizing various information analysis techniques. By so doing the planner hopes to describe his uncertain world in terms of manageable risk. One of the most commonly used methods of employing historical data to predict future events is simple linear regression analysis.

The user of this method postulates a linear relationship between two or more variables and finds the best estimate of that linear function using a technique known as the method of least squares. Professors Smith, Estes, and Committe maintain that, attracted by its computer-made simplicity, users of least squares may be implicitly accepting as true basic assumptions about their underlying data which may, in fact, not be true.

The linear regression model is represented by:

$$Yi = \sum_{j=1}^{P} Bj\ Yij + \varepsilon i \quad (i = 1, \ldots, n)$$

Among the major assumptions the least regression model and the least squares analysis require are that the distributions of the disturbance or error terms, the ε's, be independent, have means equal to zero, and have a constant variance. The authors investigate the implications of these assumptions and the potential impact of violations. That the disturbance terms are independent indicates that no single error distribution is correlated with any of the model variables or with any of the other error distributions. In other words, the level of the error at any point does not depend on the magnitudes of the Y's or the X's, nor is it influenced by the levels of any of the other errors.

If the error mean is truly zero then the error distribution is centered along the hypothesized linear regression. If not, there exists evidence of non-linearity. If a condition of equal variance, homoscedasticity does not exist, the problem of heteroscedasticity must be resolved. Possibly, a solution lies in discovering a functional relationship between error variances and model variables and in transforming the data to an equivalent equal variance condition. Both linearity and homoscedasticity can be tested using appropriate statistical techniques. The authors discuss a case of non-equal variance where the error variances are linearly related to the Y-variable and illustrate the impact of such a condition with an example of breakeven analysis. In their example. the breakeven point is significantly higher under conditions of error variance, which increases in proportion to sales level, than if error variance is assumed to be constant.

The *caveat* is that the user of a linear regression model must be sure that the data he uses conforms to the underlying assumptions of the model. If the data does not conform, the model may yield meaningless and misleading results, and the decision maker should consider revising the linear model or turning to alternative estimation techniques.

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An Operational Cost of Capital for Capital Budgeting Decisions by Ronald M. Copeland, *Managerial Planning*, January-February, 1972.

Formulation of an operational cost of capital measure useful for solving capital budgeting problems will provide an objective criterion by which management can determine whether it should implement a proposed capital expenditure.

Two problems related to capital budgeting decisions are measuring and ranking proposed projects according to desirability, and matching sources of funds with the proposed projects. In order to choose between alternative projects, these problems must be solved simultaneously. An operational cost of capital measure must reflect present economic situations and must consider two related economic areas, the firm and the external business environment. Two models have been accepted as satisfactorily meeting these criteria.

The discounted cash flow model compares the appropriate cost of capital rate with a discount rate which equates the present value of cash inflows expected from a potential project with the present value of cash outflows expended to finance the project. If a project has a rate of return (discount rate) higher than the cost of capital, it should be accepted.

The present value model compares the present value of cash inflows and the present value of cash outflows both of which are discounted at the cost of capital rate. If a project has a present value of cash inflows larger than the present value of the cash outflows, it should be accepted.

Management goals

Basic assumptions relating to the goals of a firm underlie most capital budgeting models, according to Dr. Copeland. He says the "assumed" objectives of management are to maximize the profits of the firm or to maximize the value of the firm. He further states that these objectives are unrealistic. Management does not have knowledge of marginal revenues and marginal costs to maximize profits. Neither does management have information concerning optimal capital structure and dividend policies to maximize the value of the firm.

Copeland points out that short-run considerations must be viewed in order to describe the operational objectives of management. Such things as the flexibility in future financing, control of the firm, risks involved, and the timeliness of the decision must be considered. Copeland contends that management's main objective is to remain as management. Truly, if stockholders are not satisfied with a firm's progress they will sell their stock. Management thus remains as management unless their performance is totally unsatisfactory.

Each decision made by management is evaluated for its effect on income, control, risk, timeliness, and flexibility. Since management is most concerned with maintaining itself as management, it does not weigh all factors equally. The rewards for success are more important than the penalties for failure.

This is because management's position is only threatened when its performance is unsatisfactory.

A firm faces two types of risk. Internal risk is the percentage of debt to equity in a firm's capital structure. It refers to the safety of the owners' and creditors' interests. Internal risk is subject to the control of management. External risk is not subject to management's control. It relates to environmental factors. This is the risk of uncertainty in stability of future earnings, liquidity safety, and marketability of assets.

Risks can be integrated into the discounted cash flow model in two ways: (1) a risk factor can be added to the cost of capital depending on how much risk is involved in the project, (2) only the most conservative cash inflows and the highest cash outflows can be considered.

Capital projects are very important to the long-run success of a firm. The cost of providing funds to finance these projects is important. This includes future costs of financing and opportunity costs associated with internally financed projects. Profitability is of particular importance to management. Earnings per share is the most important figure to stockholders in measuring a firm's performance. With a satisfactory earnings-per-share goal in mind, management will accept those projects which, in aggregate, maintain future earnings equal to or above present levels.

Timeliness of projects and the determination of sources of funds will affect the performance of the firm also. Prior planning is necessary because of the length of time required to implement most projects. Timeliness is important in the determination of the source of funds because the cost and availability of funds is related to Federal monetary policy, stock market conditions, and the short-run outlook of the industry.

Flexibility is important because a flexible firm should be able to make alternative use of its assets or be able to dispose of them and also be able to change its capital structure to its best advantage. Capital asset flexibility affects future profitability and liquidity. Capital structure flexibility affects both the availability and cost of future financing.

Assuming the sources of financing can be matched with the proposed projects, the cost of capital figure will be:

1. For debt—after-tax interest rate plus a risk factor.
2. Replacement projects financed internally—earnings per share plus a risk factor.
3. Projects in excess of replacements financed internally—the risk factor.
4. For equity—earnings-per-share factor plus risk factor.

If the source of financing cannot be determined, then the cost-of-capital figure should be the one related to the next future source of financing.

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Optimal Depreciation Policy: Pricing the Products of Durable Assets by WILLIAM J. BAUMOL, *The Bell Journal of Economics and Management Science,* Autumn, 1971.

Professor Baumol analyzes depreciation policy from the viewpoint of an economist. He develops depreciation rules that result in optimum asset utilization and considers the impact of other factors on such rules.

Until recently, economists have shown little interest in depreciation policy. They tended to view depreciation as a taxation device. The economic conception of the investment decison does not focus on depreciation because residual value is not pertinent to that decision.

This article recognizes two distinct concepts of depreciation. The first is the traditional use of depreciation to determine residual value which is of more interest to the accountant than the economist. The second concept of depreciation, closely related to the first, focuses on the effect of depreciation on price. Depreciation as a cost to the firm has an effect on the price of the firm's product. Thus, the choice of a depreciation policy will affect the stream of revenues received for the product. In this setting, Professor Baumol sets forth an optimal depreciation policy.

Simplifies task

Professor Baumol then considers the effect of increasing maintenance cost, decreasing productivity, and continued expansion of capacity on depreciation policy. An interesting property of his solution is that it becomes unnecessary to forecast more than one period in the future in determining depreciation or long-run marginal cost if capacity is expanded during each period—a property which would simplify the accountant's task of gathering the required information and computing the depreciation and marginal costs.

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It's Time to Cut Down on Advertising Waste by PHILIP KOTLER, FRED C. ALLVINE, and PAUL N. BLOOM, *Business and Society Review/Innovation,* Winter 1972-73.

This article points out some possible consequences of irresponsible advertising policies. It should foster grave concern in the advertising department of many major American corporations because some of the consequences which the authors mention not only could happen, but already have happened!

Describing the enormous annual expenditure on advertising in the U.S., the authors direct the reader's attention to those expenditures which merely transfer consumer preference from one brand of a given product to another brand of the same product, for example aspirin advertisements. Wasteful expenditures such as these and the attendant social costs have caused the Federal Trade Commission to seek power for affirmative disclosure, substantiation, corrective advertising, and counteradvertising.

Other consumer advocates, such as Ralph Nader, have proposed additional approaches to the advertising waste problem. From the numerous proposals advanced, the authors have selected the following five for brief discussion:

1. Nationalize the culprit industries, reduce the number of brands in competition, and restrict advertising to largely informational purposes;
2. Establish a regulatory agency with the power to control prices, marketing expenditures, and profits;
3. Create smaller and more competitive firms through divestiture;
4. Permit industry self-regulation with the consent of the Government; and
5. Educate the public through factual (as compared to persuasive) information about products.

It should be emphasized that the authors do not advocate these approaches; they merely observe them as proposals which have been made by others. The first three proposals appear to be drastic, but as one reads this article numerous present examples of the second and third can be recalled.

Kotler, Allvine, and Bloom analyze in depth a sixth control technique—direct regulation of advertising. It is in this analysis that the strong hand of Government influence is most ominous. The four forms which direct regulation can take are:

1. Direct limitation on advertising expenditures,
2. Economic penalties for advertising (essentially tax-related penalties),
3. Economic incentives for reduced advertising, and
4. Reduced access to the media.

Regulation by industry

It does not appear to be feasible nor justifiable to apply any of these measures "across the board." Thus any application will probably occur on an industry-by-industry basis following an audit in which a particular industry is deemed to have abused its advertising responsibility.

To avoid an intensive audit of marketing performance the authors believe an industry should be able to supply an affirmative answer to the following five questions:

1. Are there adequate product offers for each major price and taste segment of the market?
2. Are consumers provided with relatively full information about the offer?
3. Are advertising costs reasonable in relation to the commodity status of the industry?
4. Are rates of return in the industry competitive?
5. Is the industry free of incipient trends toward monopoly?

Their rating system based on these five questions reveals market performance problems in the aspirin and breakfast cereal industries, mediocre conditions in the automotive industries, and excellent conditions in the bread industry.

The article stimulates some serious considerations about the effectiveness of advertising, the inability of firms to avoid heavy advertising outlays without collusion or Government intervention, and, finally, the form that Government intervention might take. Advertising managers in firms whose product line is characterized by substantial brand advertising will find the article well worth reading.

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