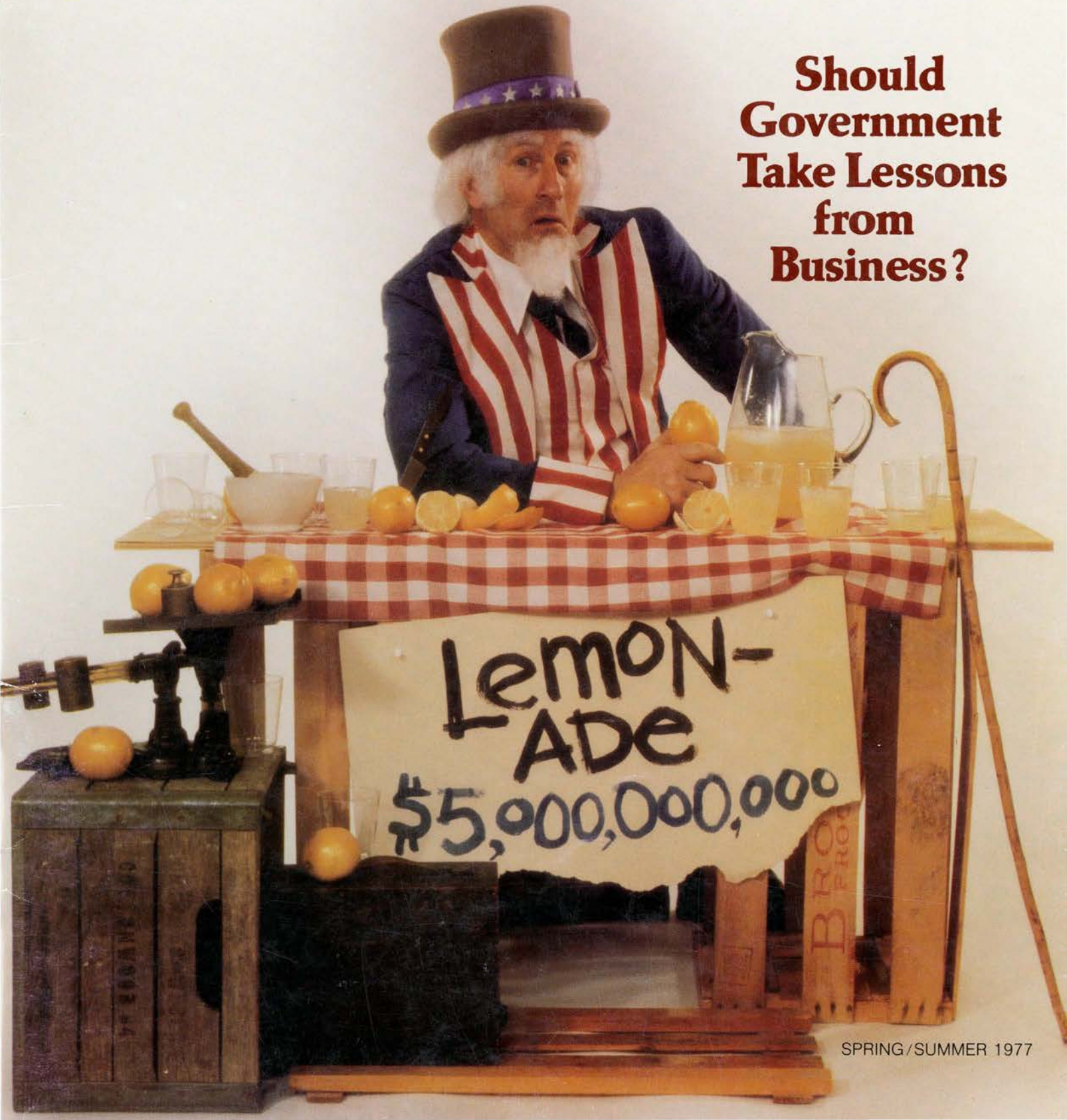
EXCHANGE

BRIGHAM YOUNG UNIVERSITY
COLLEGE OF BUSINESS / GRADUATE SCHOOL OF MANAGEMENT



Should Government Take Lessons from Business?

SPRING/SUMMER 1977

DEAN'S REPORT

Investment Precedes the Return

In the six months since the publication of the first issue of *Exchange*, the College of Business and the Graduate School of Management have pursued an ambitious and forceful fund-raising effort. Our $20 million goal is aimed at adding faculty members, funding research, scholarships and loans, expanding specialized curriculum, and constructing a new management building. The building alone is projected at $12 million.

Brigham Young University President Dallin H. Oaks has named the college and graduate school's program as the University's top fund-raising priority. The campaign is a five-year effort, and the returns thus far have exceeded $3 million.

The college and graduate school, as well as the University, are committed to working with alumni, businesses, foundations, and individual contributors in the expansion project. Our objectives in publishing *Exchange* include informing these groups and individuals of the solid contributions of our students and faculty. Yet we do ourselves a disservice, and our readers as well, if we ignore some of our needs. The contents of the magazine represent our firm stand on matters such as managerial competence, professional ethics, and the free enterprise system. But what is often more difficult to express is our sincere desire to do "more." We are working to attract students and faculty who share the determination of those already working in the college and graduate school. As we recognize the manpower and financial investments required, we also acknowledge that the returns will have an impact far beyond our community.

This reaching "beyond our community" is, of course, two directional. This issue of *Exchange* offers Reginald H. Jones, General Electric's chairman of the board and chief executive officer, discussing the working assignments of GE board members. Wheelabrator-Frye's president and CEO, Michael D. Dingman, calls for a look at such basic issues as, what are we trying to do, and why? Other articles involve student work in plant assessment centers, faculty consulting experiences, and an IBM professional on sabbatical at BYU.

Above all, we hope that you will join us in our commitment to the ideals I have stated. In doing so we hope that you will become a part of our *Exchange*.

Merrill J. Bateman

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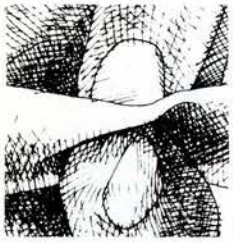
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Cover photo by Royce Bair

So You Want to Hire a Consultant

by William G. Dyer

I've been consulting with organizations for almost 20 years, and a few times I feel I have really been helpful to a company. More often I have finished the consulting arrangement with an uneasy feeling that nothing has really changed for the better, and I have even experienced those situations where I felt the organizations would have been better off had they not retained my services.

What makes the difference between the successful use of a consultant and those other times when everyone (including the consultant) wonders, "What in the world were we paying for?" Most managers lack understanding and experience in—

1. selecting the appropriate consultant;
2. developing a useful "contract" or agreement about how the consultant and the organization will work together;
3. using the consultant's resource effectively once work has begun.

Looking for Magic

Many managers think about a consultant like they think about prayer. They have a problem they can't readily solve. It would be wonderful if they could just hire a consultant (or pray), and someone would magically appear and give them just the right solutions. Unfortunately (or perhaps fortunately) neither consultants nor prayers usually work out exactly as we, in our fantasies, would hope.

What are some of the barriers to effective use of a consultant? First there is the problem of selecting that person who will be most helpful with your particular problem. Most individuals are more astute in selecting a new refrigerator or car than they are in retaining a $500-a-day consultant. When you buy a new automobile, you usually read some consumer reports, ask people about the cars they own, test drive several different models, weigh all the factors including how the family likes it, and then make the purchase. It is often the case in hiring a consultant that the manager asks a friend if he knows someone or hears an "expert" give a lecture or has read someone's book and then decides "that is the person we need."

Checking Credentials

Twice in my experience I have felt that the person selecting me as a consultant really did a thorough job in making his decision.

Most individuals are more astute in selecting a new refrigerator or car than they are in retaining a $500-a-day consultant

One organization first had me send them both my credentials and several publications and then asked me to write my theory of consulting and change. They also requested that I identify three or four organizations with whom I had worked so they could make some inquiries. Then I was invited to spend a day meeting with managers at different levels. During that time, they outlined their problems and concerns. Following these explorations, we mutually considered: (1) From their position, was I the type of person with the kind of experience they needed and could work with? And, (2) from my perspective, would my resources contribute to solving their kinds of problems, and was this the type of organization I could work with?

After these shared negotiations, it was agreed on both sides that I would work with the organization. This type of thoughtful negotiation maximizes the possibility that the consultant and client might be able to work together effectively.

Remember, I am talking about a consultant—not a speaker, trainer, or special resource person. The consultant is a particular kind of person who works with a client when something about the situation is unknown—either the problem is not entirely clear or the solution to the problem is still in doubt. Under these conditions the client needs someone who can help reduce the ambiguity of the situation and improve the level of productive problem solving or action taking.

If the client knows what his problem is or the solution is evident, he may need a speaker, trainer, or special resource person to handle a part of an action program. But these people, however useful, are not consultants. There are times when I serve as consultant, speaker, and trainer combined for a company's management development program, but the roles differ and the client must be aware that a great speaker may not be a good consultant.

Recognizing the Problem

When the cause of a problem is unknown, it is very difficult to know if the consultant has the right resources (background, training, or experience) to ask the right questions. One consultant, trained in human relations, was asked to work with a paper mill. Production was down and people

were frustrated, angry, and upset with each other. The consultant recommended a team building program and worked (without noticeable improvement in production) for a period of months.

Then one day a visiting engineer who was going through the plant listened to the equipment and observed that something didn't sound right and asked if the main drive shaft were in line. A quick check indicated that, indeed, the main shaft that powered the production unit was not functioning correctly. When this was replaced, production immediately improved, and people were much happier and satisfied—and everyone wondered why this outside fellow had been doing all this team building when what they really needed was a new drive shaft.

Know Your "Hammer"

A good consultant is aware that there are probably facets of any problem that are beyond his scope, and he points out the areas where he may not be able to even ask questions. The client is always hiring a fallible resource and should not expect the consultant to do everything, and the consultant should not promise the moon.

Gene Dalton, of the BYU Organizational Behavior department, talks about the "Law of the Hammer." The Law is: if you give a little boy a hammer, he will find something to pound. So it is with some consultants. If they have *one* "hammer"—be it management by objectives, motivation, job enrichment, team building, or anything else—they will pound with that hammer. If you know what hammer you need, you hire the right one. But if you are not sure what hammer is best, hire a consultant with an assortment of hammers, or one who will not hammer at all but will help you discover what hammer is really needed.

Clients should know something of the dilemmas that face consultants. A consultant wants to do a good job, to be helpful, and to "earn his pay." Yet if the client is not careful, he may unknowingly contribute to an unhealthy condition. The client may expect the consultant to come in and "do his thing"—to demonstrate his competency. In turn, the consultant wants to show his worth, so he moves in and runs the show while the client sits by the side and watches. The result can be that, if the consultant is not successful, the client assumes no blame, for it is the consultant's fault. But if the consultant is successful, the client can feel envious, sometimes secretly resentful, that an outsider could handle the problem that he could not. In addition the client sometimes feels more inadequate because he thinks he can never do things as well as the consultant, and he often becomes terribly dependent on the expert to continue to handle difficult situations.

Time and Money

Consultants need time to understand the nature of the client's organization. They need to talk to people, observe, listen, take notes, read reports. This is different than moving in and showing your brilliance; it also takes time and costs money. The client should expect and allow this period for the consultant's immersion into the organizational waters.

Recall that the consultant helps in areas of uncertainty. When data are surfaced that indicate a certain type of problem—or a possible solution—the consultant must confront the client with that data or solution. Sometimes the data are uncomfortable or unexpected. But whatever the consultant's style (whether to approach gently or with bluntness), confrontation—in the sense of pinpointing the real issues, the honest data, the tough alternatives—must come at some point in the client/consultant relationship.

The Dependency Issue

At times, faced with alternatives that are difficult, the client may legitimately depend on the consultant and sincerely ask, "What should I do? What actions should I take?" Consultants differ in the ways they respond to dependency—some accept it for a time and work through it, while others prefer to try to keep the client always out of a dependency condition. But all good consultants will face the dependency issue and try to resolve it for the *benefit of the client.*

Ultimately all reputable consultants have as a goal not only to help the client solve the problem that prompted the hiring of an outside resource, but to help the client develop a capability to recognize and to cope with future similar problems without the help of a consultant. Continued dependency will not achieve these goals. A client should be aware of the dependency issue and should discuss the matter with the consultant. The very process of having the client ask about the dependency question usually moves toward reducing dependency.

Consultants will, whether or not they recognize it and plan for it, be working with and affecting the client system at two levels—the problem level that prompted the retaining of the consultant and the human level (the relationships and individuals with whom the consultant works). The two levels are closely interconnected and an effect at one level will have some influence on the other. If a con-

sultant's style is such that he alienates the people with whom he works, it will be difficult for him to move ahead with effective problem-solving action. Likewise a lack of competency in dealing with the problem is going to reduce the client's acceptance of the consultant. In securing a consultant, the client should review and discuss in some depth the consultant's effectiveness at both levels before making a commitment to retain.

"Don't Upset Mother"

Sometimes clients decrease the probability of a consultant's success by either consciously or unconsciously specifying certain restrictions that make problem solving almost impossible. For example: Assume that a family requested that a prominent counselor help members deal with domestic problems. It is apparent to the counselor that the major difficulty is the family members' inability to deal with a dominant, manipulative mother who controls everyone by threats, allocation of affections, fear, and guilt. Everyone is worried about the mother, and the counselor is asked to help improve the family situation—but family members are quick to add, "Don't upset Mother."

I have worked with clients where I found (after gathering data and diagnosing the situation) that the major problem was a set of longstanding relationships among senior managers who wanted conditions to improve in the organization but who did not want anything disturbed in their world—another variation of "Don't upset Mother." All the consultant can do is honestly identify the problem as he sees it and then move on if the client is unwilling to work on the situation. The client may (and sometimes does) then look for a consultant who will agree to work on solutions without "upsetting Mother."

No Guarantee

The skillful consultant may agree to attempt problem solving without creating too much disruption in sensitive areas, but he cannot guarantee to help produce change while never creating upset. If the client is aware of some areas that must not be altered, it is extremely helpful to the consultant for those areas to be identified at the beginning—before an agreement is reached.

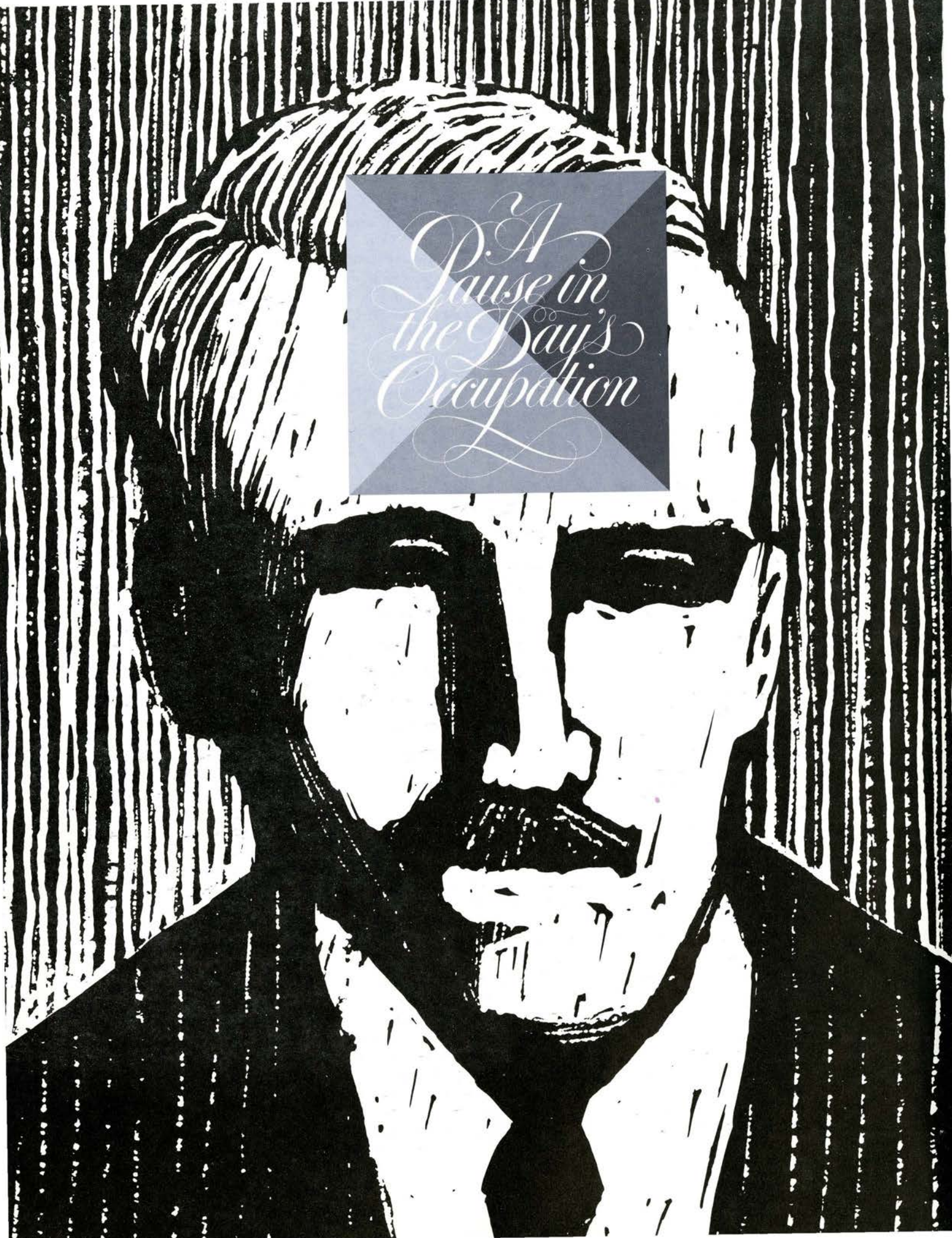
Certain emotional factors sometimes cloud the consultant's and client's ability to establish a clear and satisfying working relationship. If the client is in awe of the consultant, or if the consultant is overly concerned about impressing a client, neither may be open enough to candidly discuss expectations and understandings that should be agreed upon before work begins. There should be some clear understanding of what the client expects of the consultant and vice versa. If the client expects the consultant to move in quickly and the consultant feels that is inappropriate, this should be discussed and resolved. Such issues as the timeframe, point of entry, confidentiality of gathered data, fees, evaluation of progress, and termination procedures should be explored in order to produce a clear working agreement.

The client is always hiring a fallible resource and should not expect the consultant to do everything, and the consultant should not promise the moon

The Empty Till

Particularly important is an understanding regarding time—the consultant must be given a fair opportunity to make a difference. The least effective consultation to which I agreed was early in my career when an organization contacted me and said they had a few thousand dollars in unexpended funds in the budget. Rather than return the money to central finance, they asked if I would give them that much consulting time, for after all, "all organizations could be improved, couldn't they?" I allowed that they could and took the contract. In short order I uncovered a series of problems—some of which the client did not want to deal with and others that were at the early stages of research and action—when the money ran out. Experience has led me to attempt to work through the contract with a client much more carefully than I had prior to that early disaster.

Consultants can help. Presently, research data indicating the usefulness of consultants is extremely limited. Sometime, however, someone will conduct research on consultants and discern what kinds of consulting are helpful, for what kinds of clients, and on which problems. Until such time, most clients should do their homework carefully before allowing anyone to influence an on-going system in an attempt to be helpful. The homework should include both what to expect from the consultant as well as what behaviors are appropriate from a client. ■


A Pause in the Day's Occupation

by Michael D. Dingman

Between the dark and the daylight,
When the night is beginning to lower,
Comes a pause in the day's occupation
That is known as the Children's Hour.

—Longfellow

In the perceptive imagery that poets seem to command so well, Longfellow, in these four well-known lines, is not merely recounting the pleasures of setting aside work to revel with three mischievous daughters. He seems to be saying, "Set routine chores aside. Take a break. Redirect your entire thought process."

Our turbulent society is producing greater numbers of overly active advocates persuading us to buy, sell, promote, expand, contract, build, obey, conform, sue, or just listen. This assault goes on day after day, and we find ourselves constantly pressured to say yes, no, or maybe. Success depends on how often we come up (through skill or luck) with the right answers.

No one has ever devised a better formula for handling this daily shock wave than the business consultant who advised Andrew Carnegie. He told Carnegie to make a daily list of his ten most pressing problems (with the toughest one first), handle them one at a time, and then go home.

I would add one more ingredient to that formula—a 30-minute "pause in the day's occupation."

Tick-Tock

For 30 minutes a day I would block the phone, close the door, and think, with nothing but a ticking clock to keep me company. I would quietly, methodically examine one problem. I would define it in simple, uncomplicated language. And here the clock can be an invaluable inspiration. For have you ever heard a simpler expression for the passing of time than "tick-tock?"

I would ask the questions, "What are we trying to do, and why?" If I can answer these in simple, direct language, it is likely I will be on my way to a simple, direct solution.

Early in World War II a directive reached President Roosevelt's piled desk. It said:

Such preparations shall be made as will completely obscure all federal buildings occupied by the federal government during an air raid for any period of time from visibility by reason of internal or external illumination. Such obscuration may be obtained either by blackout construction or by terminating illumination.

I don't know if he had a clock urging him on to "tick-tock" simplicity, but Roosevelt must have asked, "What are we trying to do?" He rewrote the directive: "Cover the windows and turn out the lights."

> For 30 minutes a day, close the door and think. Quietly, methodically examine one problem. Ask, "What are we trying to do, and why?"

At Wheelabrator-Frye, we had the opportunity several years ago to apply this simple, self-effacing procedure with great success. It was time to face the traumatic literary event that faces every large corporation every year—the annual corporate report.

"Why does an annual report have to be so unreadable?" we asked. "Why can't it be written so simply that even a child can understand it?"

Out of these simply stated questions came Wheelabrator-Frye's *Annual Young People's Report.* Not only does it explain Wheelabrator, it discusses how the free enterprise system works in the United States. Not only do young people read and understand it, it has a vast adult audience as well.

Polarized Taxpayers

In another productive pause in the day's occupation, we raised the question, "How do we know the taxpayer is getting his money's worth?" We had just moved our corporate headquarters to New Hampshire and were amazed at the vehemence with which taxes were discussed in New England. Much of the debate polarized on political philosophy. The emphasis was on *where* to spend money, not *how* to spend money.

Through the Wheelabrator Foundation, we made a grant to Dartmouth College to study the fiscal systems of New Hampshire and Vermont. The resulting report, written by economics professor Colin Campbell and his wife, Rosemary, showed conclusively that Vermonters paid 50 percent more for essentially the same services supplied in New Hampshire.

The principle difference was not, as so widely argued, a philosophical difference, but simply a matter of how public officials managed public funds. We, and the

rest of the nation, got the answer because we raised the question. The study, now in its second printing, has been widely acclaimed in the nation's press and in many state legislatures.

I once drove a medium-priced car that widely advertised its vast trunk capacity and the fact that six basketball players could jump in and out of the seats with ease. Ease? The floorboard where my left foot would normally rest was only 10 inches deep. My foot is 12 inches long, and I had to drive with my left foot turned sideways. The head of that car company should have discovered these space problems on the blueprint, not in a letter from me. If he had paused in his day's occupation, sat back, and asked, "Can people afford my car? Can they read the speedometer? Will it fit in their garage? Do their heads fit? Do their arms fit? Do their feet fit?"—he might still have me for a customer.

A local radio station has been playing an advertising spot for the past three weeks. I must have heard it 40 times. I do not know what it advertises. It is a massive production with drama, music, humor, etc., but it is impossible to understand the name of the product. If the head of that company were to pause for 30 minutes on a busy intersection and play his commercial on a tape recorder for passersby, he would know in a very short time what I know. He's wasting his money. His regional sales director must already know it.

One day, in an introspective "tick-tock" session, you might want to see what your not-so-silent partner, the federal government, is up to. By the way, could you imagine what a clock designed by a federal agency would say, rather than tick-tock?

Adding Interest

For years, people who would ax or fatten the national defense budget and the HEW budget have been swapping blows and attracting heavy media treatment. Have you ever seen the budget of the United States? The third largest item on that budget seems to have no friends or enemies. You never hear of it. It provides no services and produces no jobs. It's the $41 billion we pay as interest on the national debt. This has to be the number one argument for a balanced budget, but who discusses it? Who even knows it's there?

Wherever our government is going, you're going with it. If you're concerned about the destination, stop relying on the media for all of your information and dig up some facts for yourself.

As Easy as the Yellow Pages

Last Christmas, when we were trimming a tree in our lobby, a researcher asked me, "Did you know you can get free Christmas trees from the federal government?" I knew that Uncle Sam is often confused as Santa Claus, but I frankly didn't know he gave away free Christmas trees.

Later, in a quiet moment, I started thinking about those free trees. I wondered what other benefits our federal goverment offered that I had never heard of. Three days later I had in my hands a book entitled *Encyclopedia of U.S. Government Benefits,* published by Wm. H. Wise and Company, Inc., of Union City, New Jersey.

It has more than 1,000 pages and lists more than 5,000 benefits available to every American. A jacket blurb reads, "The millions of dollars in money services and untapped government benefits that your tax dollars have been paying for all these years are now available for you to review and use for the first time . . . at your fingertips . . . services as easy to gain as looking them up in the Yellow Pages."

A true encyclopedia, it lists every kind of government payment, service, and benefit from A to Z (from Aerial Photography to Zoological Parks, including grants, payments, programs, scholarships, investments, vacations, loans, etc.). Here are opportunities most Americans do not even know exist (even though they are paying for them) in a handsomely bound volume with lots of pictures just like a big Sears, Roebuck catalog. This book may never be reviewed on NBC's Today Show, but it is the most revealing book I've seen in the past ten years.

If you were to devote one pause a week to asking simple, direct questions about your federal government, at the end of a year you could wind up knowing more about the subject than the reporters you now depend on for news.

One of your most productive 30-minute pauses will be the day you tackle communications. Persuade your staff to limit their memos, not to one page, but to one sentence. Insist that they use language to communicate, not obfuscate. What a great day it will be for your organization when a bureaucrat's "terminating illumination" becomes a Roosevelt's "turn out the lights," and a custom weapon maker's "render nonviable with a nondiscernible microbionoculator," becomes an Edwin Newman's "shoot with a silencer-equipped dart gun."

Your "pause in the day's occupation" could become the most interesting, productive part of your day.

And, on a particularly slow day, why not turn back to Mr. Longfellow's original intent and let it be a Children's Hour. The chimes of young laughter could be the happiest sounds in your office all year. ■

Assessing Your Future

by Roger Williams

BYU students (from foreground) Peter Sorenson, Joe Koslarek, Greg Witt, and Kris Arnold review materials prior to simulation exercise with Ore-Ida assessment center participants

It's universal for a company to want individuals with the technical ability to run a highly complex operation and the interpersonal skills necessary to direct a diverse work force. But actually identifying these leaders is another managerial ballgame. No team wants to invest weeks of training only to see a rising star foul out.

When Ore-Ida Foods, a food processing subsidiary of H. J. Heinz, Inc., needed to spot candidates for first-line managerial openings, it merged energy and ideas with students from BYU's organizational behavior department. The company and students were looking for men and women who could settle work-crew disputes, achieve fairness with employees, and avoid labor/management problems.

The students and Ore-Ida staff, including management personnel in production, quality control, and training, conducted the two-day Assessment Center at the company's Burley, Idaho, plant. Twelve hourly workers were invited to participate in simulated exercises intended to judge such qualities as interpersonal skills, reasoning ability, handling of conflict, organizational and problem-solving capabilities, and motivation techniques.

The plant employees included a warehouseman, carpenter, machinery operator, food boxer, and secretary, among others. The 6 men and 6 women ranged from 26 to 46 years old and had spent from 3 to 12 years with the company. Three of the workers were Spanish-speaking Americans. (Approximately 30 percent of the plant personnel are of Spanish descent.)

Tater Tots

For the six students, who knew nothing of the intricacies of transforming Idaho "spuds" into heat 'n serve hash browns, French fries, and tater tots, the plant operations were an unexpected mix of computer operations and human-technological skill.

But how do you select from a dozen individuals the ones who can effectively manage a plant operation—those who have the appropriate sensitivity to minorities? Are these same individuals able to delegate assignments and encourage quality work?

As a rule, assessment centers typically run both the assessees *and* assessors through a pencil-chewing battery of managerial brain teasers. This one followed the rule.

In one exercise, the participants met with the assessors in one-on-one situations and were confronted with a series of work-station problems that required individuals to draw upon their knowledge of motivational skills and plant policy. The problems ranged from an employee petition on a coworker's personal hygiene to what tactics should be

Edie Lopez methodically goes through a foreman's in-basket as part of an exercise

Don Masterson, Ore-Ida director of industrial relations, and BYU professor Weldon Moffitt review assessment center exercises

employed by a foreman confronted by a dizzy, lisping employee who claims to have taken medicine prescribed by his doctor.

Many of the in-depth interviews with workers focused on how and why he or she had left Appalachia, or the Ozarks, or the migrant agricultural cycle, and had come to the Burley plant. Individuals also discussed their futures and what they liked and did not like about their jobs. Whatever idealistic attitudes the organizational behavior students may have had about the joys of work were modified after hearing what it is like to be literally covered with butter, or to run a forklift all day in subfreezing temperatures.

At one point, workers were subjected to a practice stress interview. They were given a minimum of facts concerning a fairly intense situation, such as one employee hitting another with a lead pipe. They were assigned to ferret out sufficient information from the assessor posing as the resource person and to make a decision based on that data. The participant then had to present and defend his conclusions to a deliberately unreceptive and skeptical audience.

Another situation involved a foreman's overflowing in-basket. In two hours, each participant had to digest information and formulate action plans for problem areas such as maintenance, quality control, tardiness, absenteeism, upper-management inspections, new-employee orientation, and bilingual problems. Following this, the worker went through the in-basket step by step with two assessors and explained the rationale behind his or her decisions. The assessors were able to form judgments on the participants' abilities to organize work, understand correlating problems, delegate, etc. The workers' anxiety subsided to a more manageable level when the Ore-Ida staff assured them that those situations encountered, while typical, did not *all* occur to a foreman daily.

In one activity, a BYU assessor took the role of an employee who, until recently, had shown great potential and high performance. The participant had the task of finding out what problems, personal or otherwise, were blocking the employee's job performance. The Ore-Ida assessor unobtrusively observed the process, taking notes on the counseling techniques of the participant, his ability to empathize, and his attempts to create an atmosphere in which the employee would discuss his problems.

"I'm Exhausted"

Each group—workers, students, and Ore-Ida managers—came away from the experience with some observations.

For the workers, the views were somewhat different:

"I'm exhausted."

"This has opened up a whole new realm of areas to observe in myself."

"I really don't think the foreman job is for me."

"Talking about all kinds of alternatives has been extremely helpful. I haven't felt that the experience has been any kind of a manipulation attempt. We've talked about career planning, work adjustments, and other subjects that will be useful throughout my life."

As a rule, assessment centers typicaly run both the assessees *and* assessors through a pencil-chewing battery of managerial brain teasers.

Student comments included:

"I have a new appreciation for what a plant foreman does. It really isn't an Archie Bunker world at all."

"It was surprising how many

Ore-Ida management and employees, as well as BYU students, discuss evaluation items that are part of the assessment experience

genuine emotions surfaced. Some individuals would release tension through humor; others were defensive, intimidated, and attempted to avoid issues; still others attacked, expressed very vocal opinions, and pounded tables."

"I was impressed with the management's concern for the hourly employee. They are interested in individuals who are hard workers and not just foreman material."

"The pressures on a foreman—both in technical and interpersonal areas—are massive. Yet I didn't realize how difficult it is to identify these leadership qualities."

The Ore-Ida management also found the experience beneficial:

"I feel I now better understand some of the conflicts facing our current foremen. They have a wide scope of responsibilities and my respect for these men and women has really increased."

"We have definitely spotted key individuals for foreman positions. I'd say six out of the twelve."

"This has helped me to see the company's responsibility in helping workers plan careers, and I now understand some of the real employer-employee concerns in this area."

The Ore-Ida experience wasn't the BYU students' first. They had previously worked in similar assessment centers at BYU. Instead of plant workers, however, the organizational behavior students had worked with Master of Public Administration and Master of Business Administration students. (See story on page 34.)

The focus on training students to assess managerial qualities in both academic and professional settings stems from BYU faculty member Weldon Moffitt's experience working with managers in developing better selection methods for employee job promotion. Moffitt, professor of organizational behavior, has directed the BYU centers on campus for the past five years. He has worked extensively with companies which have established in-house centers as well as firms seeking outside consultants to run assessment programs.

After conducting management training sessions for years, Moffitt says he discovered that training was assumed to be the basic, necessary ingredient in assuring good leadership. "Yet training ignores the fact that individuals have specific areas of potential, and some persons have more and greater areas than others."

Assessment centers are designed to look at skills individuals clearly possess that are needed in managerial positions. Moffitt adds, "Throughout various industries and organizations, a high correlation has been shown between performance in the assessment program and actual, subsequent job performance."

According to Moffitt, students participating in assessment centers at BYU are often initially doubtful and cautious at the prospect of evaluation by other students as well as professional managers. Yet students generally have found the exercises to be demanding and feedback sessions frank. Many discover untapped resources as well as areas needing improvement.

Workers in the Ore-Ida center were somewhat surprised, too, at the individual appraisals—and so were some of the Ore-Ida officials. One individual's performance especially stood out, as did her selection as a candidate to attend the center. In drawing up the list of potential participants, two production managers decided to ask a Spanish-speaking female to attend the center. However, neither manager knew whom to recommend. One decided to go down to the plant cafeteria during the lunch hour and watch different groups come in. After observing one woman, he was strongly aware that she was the social leader of her group. She was invited to participate in the center, and after three days of exercises and interviewing, she was unanimously voted number one by the assessors. Within weeks she was promoted; today she is a foreman who is watching for other assessment center candidates. ■

Will the Real World Please Stand Up

by Gary L. Hart

"That's an interesting theory, Dr. Egghead, and I suppose it makes for an exciting lecture at the university, but it just doesn't work that way here in the *'real'* world."

"We appreciate the fact that you've come to us *summa cum laude* straight from Podunk University with your MBA, Ms. Josephine College, but you're going to have to find out what the *real* world is like before we can give you any substantive decision-making responsibility."

Comments such as these represent an attitude that tends to dominate industry. But this outlook doesn't stop there. It is not uncommon to have students express interest in knowing what's going on in the "real world," that is, outside the classroom and apart from the university environment. And finally, although it's been rather surprising to me, I've observed many professors themselves apologize for being too theoretical and not sufficiently applications-oriented for the "real world." This last observation, I must admit, is somewhat muddled with motive. It is not clear if such comments are motivated by "status striving" or are genuine. But assuming the latter, it merely adds substantiality to the perception that there is a real world and—a what?—an unreal world? And never the twain shall meet.

A Symbiotic Relationship

In the "Dean's Report" in the first issue of *Exchange*, Dean Merrill J. Bateman asked the rhetorical question ". . . is a university in the position to offer direction to professionals dealing with practical situations?" The balance of his remarks not only seems to answer the question in the affirmative, but indicates a belief in a symbiotic relationship requiring greater nurturing than has existed in the past. And it should be stressed that there are far more similarities than differences between academia and industry. The concept of a "real world" versus an "ivory tower" or "unreal world" rather seriously limits our capacity to produce what we both want—well qualified, highly motivated, and interpersonally competent managers and employees. This is especially true as we deal with leadership, managerial skills, and organizational behavior.

My perceptions and convictions, as strong as they are and as valid as they seem to me, are based upon current, short-run academic experience. Having taught at BYU as a visiting professor, I will return to IBM in the fall after a one year's leave of absence.

Sandbox or Zoo

Perceptual differences of what is and what is not the "real world" are not limited to the academic/industrial relationship. Manufacturing affectionately refers to R & D organizations as the "sandbox" or the "zoo." The "real world" for them consists of tightly controlled schedules and costs. What is real for the researchers is the development of a body of knowledge which *may* have practical application to current or future technical problems. And to the marketing department, of course, there is a very different view of reality. Reality for a given individual or group seems to be highly correlated to what is important to that individual or organization. But the perceptual differences shape attitudes toward what is "real world" and what is "unreal world" and, therefore, have definite inter and intraorganizational effects.

What are the basic *perceptual* differences between the industrial and academic worlds? We often envision nonacademic organizations as focusing on what is pragmatic and expedient while academic institutions deal with theory and philosophy. Universities teach students the art and science of dealing with major corporate policy decisions and encourage them to seek truth, while companies assign new employees to mundane, repetitive, and unchallenging jobs, trying to help the neophytes understand that what the corporation does, and how it does it, *is* truth.

Paying to Work

But what are the real differences insofar as the students/employees are concerned? I submit that there are really only two substantive differences: students *pay* to work (and learn), and student tenure is thought of as "temporary" (generally two to eight years), while the employee/organization relationship is viewed as more or less permanent. Even the latter difference begins to break down upon careful examination, since some employee/organization relationships are clearly temporary.

There are far more similarities than differences between academia and industry. The concept of a "real world" versus an "ivory tower" or "unreal world" rather seriously limits the joint productive efforts of both

In terms of real-world experience, we should examine the similarities between the university and nonuniversity environments. Employees are hired; students are admitted. The hiring standards be-

come more exacting the more responsible or professional the opening. Similarly, admissions standards become more demanding as students apply for candidacy in select graduate programs. Manager/employee and professor/student relationships are formal and, in both instances, are in superior/subordinate fashion. Employees/students are taught, counseled, and coached and their performance is evaluated. Unsatisfactory employees are fired, while unsatisfactory students are expelled or not readmitted. Employees compete with one another for the best work assignment and the next promotion; students compete with one another for the best grades and teaching/research assistantships. In both worlds accountants deal with ledgers, mathematicians make calculations, and chemists wash test tubes. Granted, preprofessionals do not perform root canals or defend ITT in court, but most students engage in activities of one kind or another that are relevant to their future occupations—or what's a university for?

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Grumbling "Producers"

In most nonacademic organizations where size and complexity have required function differentiation and then integration, line/staff and other interfunction squabbling has become commonplace. Line management resents the controls imposed by staff, and line professionals wonder why administrators get the spacious window offices, while the "producers" must put up with something less. Recently, as a senior professor was trying desperately to arrange his bookshelves and other office paraphernalia in his new but undersized office, he was heard to say:

"When are they (the administration) going to realize what is being produced at this university and who the producers are? Look what we have to put up with while the administrators enjoy the comforts of more-than-adequate-sized offices."

The issues are the same. The experiences of control, power, differentiation, authority, integration, and many people organized (sometimes very loosely) to achieve some common (or not so common) objectives are to be found in both places. Perceptual differences, personal objectives in conflict, interpersonal issues, and confrontation all exist in academic and nonacademic organizations alike. Consequently, all aspects of the university experience should be relevant preparation for postgraduation opportunities. Perhaps our focus has been too narrow.

Going for the Best

Traditionally, we expect our academic institutions to produce engineers, computer scientists, accountants, trainers, etc., to meet the demands of business. The emphasis is on technical knowledge and skill. Recruiters compete fiercely for the top of the class in the various occupational and professional disciplines. And yet, with the best graduates in their ranks, organizations often fail. According to some experienced executives and theorists, the failure comes not from lack of adequate technical training, but rather from the inability of many individuals to cope with organizational demands such as interpersonal conflict, power, and control, and from lack of adequate executive leadership skills. Recently a corporate executive indicated that he was very impressed with the technical knowledge and skills of five MBA graduates his company had interviewed for positions. Unfortunately, he said, not one of them was able to respond well to questions about how to motivate a group of employees in need of some motivating force. They clearly fumbled on this issue. He said his company *might* offer one of the five graduates a job.

Wherein lies the problem? Many of these students have taken courses in organizational behavior, group dynamics, industrial psychology, and the like. Isn't it working? The answer, it seems to me, is that it is working to some extent. But the prevailing attitude, that identifies experiences in school as being artificial and those at work as being real, has prevented much genuine learning from taking place.

Plotting a *Coup D'etat*

Let me give an example of the kind of possible transferable learning experience I'm talking about. A unique series of incidents took place in a graduate course that the students are likely to remember long after they've forgotten some of the accounting or marketing principles they've been taught.

A midsemester exam was to be given in a course entitled "Management Style and Philosophy." The exam was to be administered by the department secretary in the absence of the professor. A small subset of the class, a group hav-

ing difficulty deciding on the subject matter for a group project, seized upon the notion of experimenting with power by taking the bundle of tests from the secretary when she arrived, locking them up, and cancelling the test taking for the day. After a somewhat limited discussion among themselves, they executed their plan.

When the conspirators announced to the rest of the class that they had absconded with the tests, locked them in a safe place, and were unilaterally cancelling the test taking that day, it caused a considerable amount of anxious confusion. After several moments, and when it became evident that the conspirators were serious, someone suggested that the students would be better off if they used the time to individually make up their own tests, respond to them, and submit them to the department secretary for safekeeping. This unexpected response was a blow to the conspirators and resulted in subsequent further power play actions on their part which were very interesting, but which would require too much time and space to discuss here.

Crime and Punishment?

The "test stealing incident" resulted in several discussions in class, a strong display of emotions from class members, alienation of the "conspirators" from other class members, an unwillingness on the part of class members to objectively discuss the potential learning elements of the experience with the group who chose the incident for a group project, threats to take the whole affair to the University Standards Office, and a series of interviews with the professor to demand punishment of the conspirators (including failing the course).

The test stealing incident and its aftermath provided many significant learning opportunities of which the following are examples: (1) How does an organization, management and non-management, respond to the usurpation of power? (This could be compared with attempted and successful union activities.) (2) To what extent were class members aware of the emotion-clouding effects which developed, and how well were they able to deal with them? (Compare with any events within organizations in which people have a lot at stake and tend to get emotionally involved, such as transfer of a product or function from one location to another or a huge layoff.) (3) To what extent were the students able to live with and adjust to the decisions made by the professor as to how the entire incident would be handled? (Employees often perceive injustices which they feel are not being adequately dealt with by management. What is their recourse? What are the risks involved if they pursue a grievance procedure?)

There were many other learning opportunities related to the test stealing incident that were very real, caused the juices to flow, and required focusing upon personal, interpersonal, and organizational issues. These were not theoretical concepts about what a person *might* face in the"real world"; they were real and important events happening *now* in the real world. It doesn't take extreme conditions like those of the test stealing incident to create real organizational learning opportunities at the university.

Learning to Cope

Every time a student is given a grade, he or she is experiencing the phenomenon of performance evaluation. To what extent are students able to adjust to this system, especially when they don't like it or don't respect the professor? How well are they able to handle the situation when they appeal to their professor for a grade change which isn't forthcoming? Does this experience of powerlessness frustrate or discourage them? Are they able to cope?

Often, failure comes not from lack of adequate technical training, but rather from the inability of many individuals to cope with organizational demands such as interpersonal conflict, power, and control, and from lack of adequate executive leadership skills

Are the professors able to seize upon opportunities to instruct students in more than their technical area of expertise? Do they help students learn to deal with power, bureaucracy, and conflict? There appear to me to be ample opportunities.

The university *is* the "real world." Moving from the university to large or small organizations in business, government, or whatever, is merely moving from one organization to another. The commitments will probably be for longer durations and pay will be received for services rendered. But the requirements for organizational coping start and continue—at least by the time the individual reaches the university. The challenge of the university is to *initiate* the development of organizational coping skills which can be carried with the student into the labor force. And likewise, the challenge of industry is to recognize the experiences and contributions of those academics who are joining the other part of the "real world." ■

Running a "Word Business"

The ad was simple. "Young writer wanted for *Reader's Digest*. . . ." For a Philadelphia copywriter making $5,000 a year in 1942, the chance to earn $8,000 was worth competing with a thousand other fledgling journalists. It took six months to work through the list, but the magazine hired the aspiring writer, who went to work drafting promotional letters. As an advertising man, Hobart D. Lewis felt that nearly every copywriter is a writer-journalist at heart with printer's ink running through his or her veins.

Hobart Durbin Lewis has never lost that urge to write, and as chairman of the board and chief executive officer of the world wide *Reader's Digest* publishing empire, he retained his connections with the "word business"—as he calls it—serving as the magazine's editor-in-chief.

Like the ad, he makes it sound easy: "I was interested in ideas. I was selling ideas by mail, and then as an editor, I was working with ideas. I don't think I would have been very good at selling soap."

After 34 years at the *Digest*, Lewis retired in December 1976, having run its vast magazine, book, film, and travel interests. Spanning six continents, the magazine's reading audience alone is an estimated 100 million.

"Bible of America"

After Mom, apple pie, and the flag, fourth place has to be a tie between chocolate chip cookies and the *Reader's Digest* on just about anyone's All-American list. The bedside companion to nations, it is unquestionably the most widely read periodical in the world, with 25 foreign editions. In this country it has been tagged the "Bible of America."

When Lewis arrived at the *Digest*, he brought with him some notable credentials—Princeton class of '34; English teacher at Mercer Junior College, New Jersey; and bylines in such magazines as *American Mercury* and *Story*. Born in New York City, he had been at Philadelphia's N.W. Ayer advertising agency for four years before the move to the magazine.

By 1942, the 20-year-old *Digest* had entrenched itself into the nation's reading habits. It's cofounders, DeWitt and Lila Acheson Wallace, had taken a good idea and turned it into the kind of success story the magazine itself actively promotes.

In the early 1920s DeWitt Wallace had decided that people would be interested in spending less time reading the same information currently available in popular magazines. He would sit in the New York Public Library with a yellow legal pad and condense 10,000-word articles—

not rewriting them, but merely weeding out unnecessary words. Doing four or five articles a day, Wallace's aim was to make the message short.

According to Lewis, this formula has remained with the *Digest* since its incredibly modest beginnings: "Know what your main message is, say it clearly, perhaps repeat it in a different form, and sign off. Don't give someone four or five ideas because he won't know which is the most important and he won't remember any of them."

Self-Improvement

In spite of the current vogue of sex and violence headlines, the magazine has always believed that people are interested in and motivated by other interests. A major effort of the *Digest* has been focusing on self-improvement. "As old as it sounds, everyone wants to be a better person tomorrow than he is today—whether he realizes it or not. Most everyone wants to improve his or her lot in life financially; but most of us also want to improve our moral qualities."

Whether it was helping to trim waistlines or tax payments to the government, the magazine has been a staple in mailboxes, on newsstands, and at checkout counters to help Americans do just about everything better. Lewis feels the magazine's aim to help people be successful has, in turn, made the *Digest* a success.

One area in which the magazine has attempted to help individuals succeed is health care. "The *Digest* did exhaustive research on cigarette smoking—and much earlier, too. This was one piece of pioneering."

To this day, the publication does not accept advertising for either cigarettes or liquor. "The *Digest* is a family magazine. It goes into homes. We have not felt that we should be encouraging smoking and drinking on certain pages in the magazine and warning people about the same habits on other pages," says Lewis.

It isn't every magazine that can be so selective in its advertising. The 1960s saw the death of such other general interest publications as *Life, Look*, and *Saturday Evening Post*. According to Lewis, the *Digest* has thrived while facing some of the same circumstances that contributed to the death of the others:

"A page in *Life* and a page in the *Reader's Digest* were competitively the same, maybe $50,000. But because of our smaller size, we had to spend one quarter of the costs of ink and paper, and of course, it is much lighter to mail. We have seen printing and postal costs quadruple in the last decade. The *Digest,* being so much smaller, has been at a distinct advantage, since it is the advertiser who must foot at least a part of the increased publication costs."

Less Clear Image

The opportunity to reach audiences beyond the printed page has encouraged company projects, such as film production, that have mirrored the magazine's success and others that seem a somewhat less clear image of that success.

"I think it's safe to say that we have had bad luck producing films. It is just not our business. We lost a good deal of money in several films. It's a place where amateurs should not tread—and we were amateurs in the film business."

Calling the venture "my own baby," Lewis adds that the dearth of good family films seemed like a good business opportunity for the company. "United Artists brought us *Tom Sawyer* as a project and we financed it. It was a great

success. After that I was told, 'Look Hob, it's not going to be this easy from now on.' "

Mark Twain's follow-up to *Tom Sawyer, Huckleberry Finn*, proved not to have the box office appeal of the first film. "I think this would be an example of what not to do as a manager. I delegated a lot of the responsibility in the area of the films because I didn't know anything about it. I *knew* that I didn't know anything about it, but I knew that I wanted some good films. Since I had no real experience, I delegated it, and this did not work out very well."

But he adds that he is "enough of a gambler to think that sooner or later you get something like the *Sound of Music* that is both an artistic and financial success. In addition, it more than pays for all your losses."

Translating Messages

One of the *Digest*'s most resounding successes has been its ability to translate its message to others—literally. The international appeal of the publication is editorially undeniable. Less than a year after joining the company, Lewis was assigned to the then emerging International Editions of the *Digest*. He worked with editors abroad to select articles from the parent edition and served as a liaison officer between the home office and its outposts. Looking back on the various cultures that have been introduced to the *Digest*, Lewis sees the Arabic countries as the most difficult to penetrate. The customs, manners, religion, and language all present challenges to the editorial staff. In other areas such as Germany, Japan, and France, there are great similarities that people around the world share.

Part of getting the story out of the "nice idea" stage is bringing together the staff that can do it. Lewis feels that the *Digest* is an example of "like attracts like." When the magazine was getting started, he explains, "it was truly a marvelous little experiment in journalism by a man who was really a missionary at heart. He was just trying to do some good." The home base has since shifted from the New York Public Library to Pleasantville, New York, with offices throughout the world; but the founder, Wallace, and others work to keep the same spirit that existed in the "little experiment" days, says Lewis.

"The *Digest* is really a pleasant place to work. You know that your work is going to be rewarded and you cannot really do something that is successful without being told so. You get patted on the back; you get encouraged. We've also learned that generosity is good business. There are no unions at the *Digest* because the pay scale is high, and well, we don't seem to lose very many people."

Fridays Off

In spite of its circulation and impact, the Reader's Digest Association operates on a lean executive staff of 20 to 25 top personnel. Lewis calls it "really quite a small organization"—small enough that the entire work force gets every Friday in May off (Wallace's idea that everyone should enjoy spring), but large enough to employ some 10,000 individuals.

Yet, whether it was Wallace with his legal pad in the library or a new editorial staff member today, the *Digest* has consistently been able to deliver the kind of material that makes dinner conversation all the more interesting. And it has done so without the aid and gimmicks of full-color, double-spread artwork, catchy covers, and general editorial overkill. It is the meat-and-potatoes of Americans' reading diet-but still

the magazine has always seemed contemporary.

"The magazine depends in large part on other magazines, books, and newspapers. It attempts to reflect what we, as a nation, are doing and thinking. Yet as times change and other journals change, we will change also and our material will reflect this. For the most part, we go largely by intuition. We usually know the articles that will be the most popular, and we are rarely surprised by the responses to reader questionnaires. You pretty much know from the past what people like."

Listening to Lewis talk, you somehow wonder why advertisers, TV producers, and politicians, among others, have so much trouble trying to outmaneuver Americans' attitudes and behavior.

Lewis doesn't go so far to say that the *Digest* has all the answers. "I think it's fair to say that we wish our readers were a little younger. The average age is around 36. Our advertisers wouldn't mind seeing that drop a bit."

Out of Character

Part of delivering what the public wants is recognizing what the organization is prepared to give. Lewis recalls "many, many times when people wanted to alter the magazine or have us sell insurance or mutual funds by mail. Some individuals made elaborate studies about the possibilities, only to have the board shoot them down. If it was out of character with the *Reader's Digest*, there was never any question as to our actions."

On the other hand, if ventures seemed like a natural outgrowth of the magazine, such as condensed books, films, or foreign studies programs, "we viewed these as a just extension of the publication."

Another venture for the company has been in educational documentaries. Lewis calls the current filming of five programs featuring author James Michener in Israel, Spain, Hawaii, Japan, and the South Pacific, a "natural combination."

"Michener has been writing for us for 25 years. I feel the *Digest* should always get involved in projects that come straight out of the magazine—and this one does."

As another example, he points to the human body series ("I Am Joe's Heart . . . Spine . . . Stomach"). All those organs added up to a lot of air time. "It was first a very good series in the magazine and then a good book. A successful television series then followed."

Lewis's involvement with "good causes" hasn't stopped at the *Digest*'s offices. He serves as a trustee or board member of such organizations as Boys' Clubs of America, Red Cross, and Boy Scouts of America. In addition, he is chairman of the U.S. Advisory Commission on Information, a trustee for Consolidated Edison Company of New York, and a member of the International Advisory Council of Morgan Guaranty Trust Company. Between his public and family service—he and his wife, Edith, and their two children, Timothy and Heather, live in Bedord Hills, New York—he occasionally manages a round of golf.

Back to the Typewriter

While many executives may view giving up the reins as time to turn in the spurs and boots, Lewis is returning to his original occupational choice.

"I am going back to my first love which is writing. I am doing some articles and looking around for a good subject for a book. I think I'm going to do a biography. So, if you know of any good subjects . . ." ■

ACCOUNTING FOR INFLATION

by K. Fred Skousen

"Dad, how much did a 20-cent candy bar cost when you were a kid?"

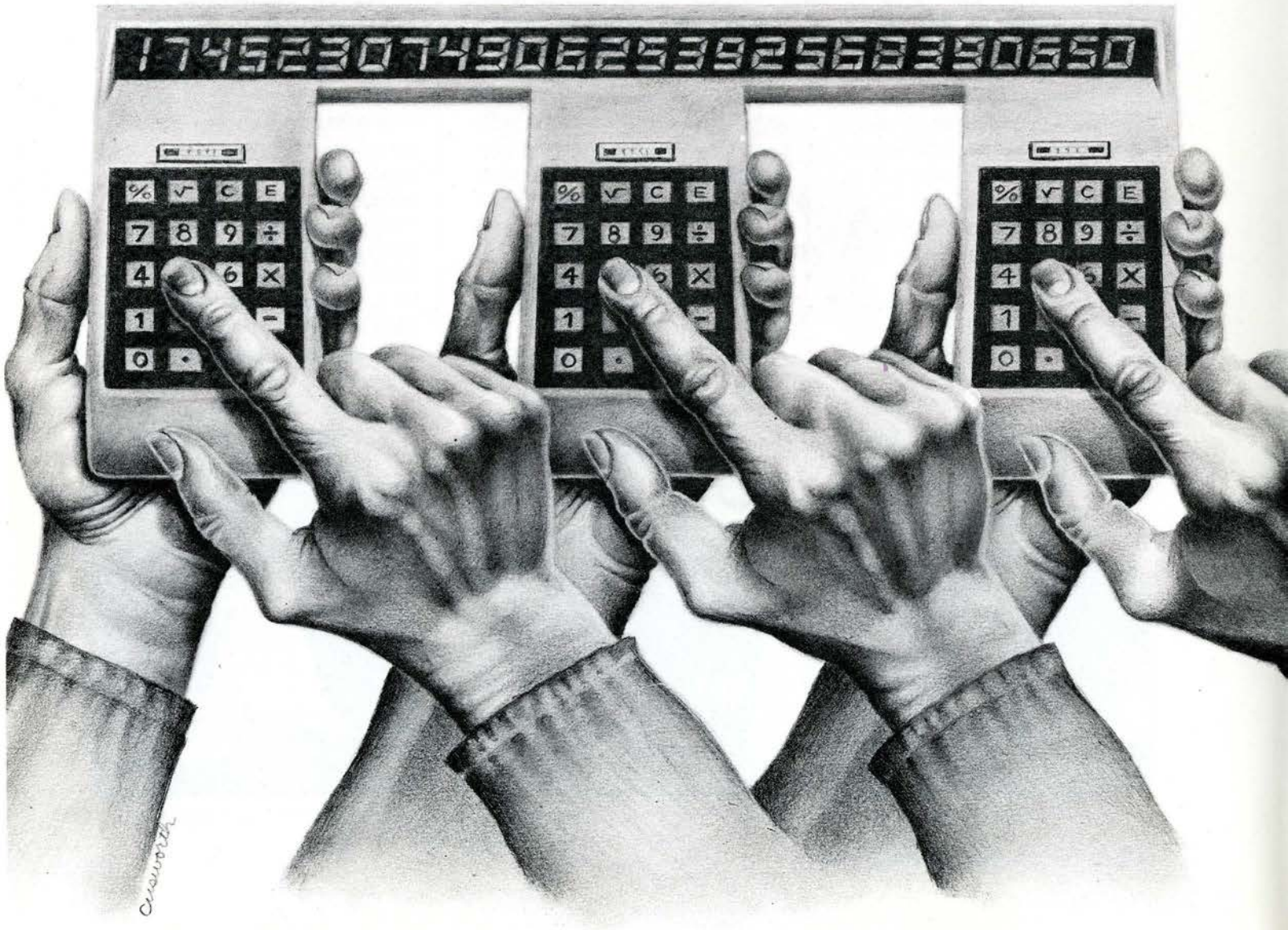
"I just filled the car up. Eleven bucks for twenty gallons of gas. I remember when it was 25 cents a gallon."

"Our office mailing costs are 400 percent higher than a decade ago—*after* adjusting for increases in volume."

Inflation has hit every one of us. An important question confronting the business community, and accountants in particular, is how to account for inflation.

Two Assumptions

It is generally assumed that accounting is a service activity—to provide quantitative information useful in decision making. Traditionally this information has come from transactions between different parties in an exchange of some kind. For example, services by an employee are traded for wages from the employer; consumers exchange money for a product or service. The base of measuring the exchange values of these transactions has been the dollar, and two assumptions have been made: (1) the exchange price at date of acquisition is an objective and valid measurement of the economic impact of the transaction and, therefore, should be used in recording accounting information; and (2) the dollar will remain stable; it does not change



in its ability to purchase goods or services over time. Thus, financial statements used in our present economic system are based on exchange transactions measured in terms of assumed stable dollars often referred to as "historical costs."

When we recognize the significance of inflation in the United States over the past several years, many of us question whether we can continue to make these assumptions—we've seen that the purchasing power of the dollar does change. It will not buy as much today as it did last month or last year or five years ago. Furthermore, exchange prices for assets purchased several years ago do not nearly reflect their current economic value in terms of the financial statements presented by business enterprises. What can be done about this situation? How can the changing purchasing power of the dollar be reflected in financial statements? What disclosure should be made of changing economic values of assets held by an enterprise?

Historical Costs

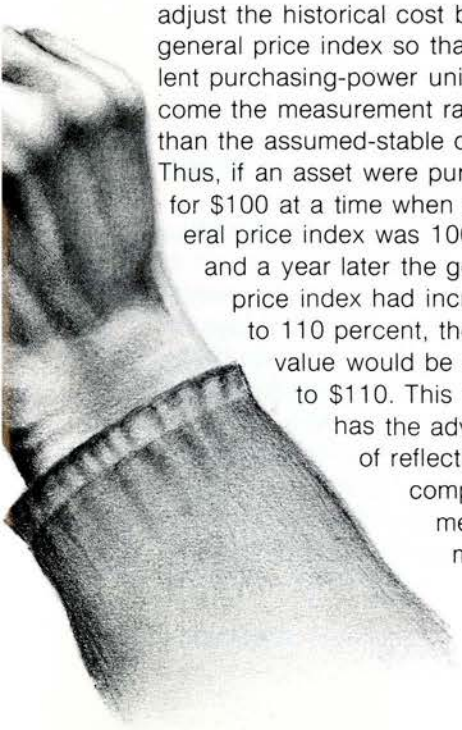
Essentially there are two alternatives in accounting for aspects of inflation. The first is to stay with the historical cost basis; that is, to adjust the historical cost by the general price index so that equivalent purchasing-power units become the measurement rather than the assumed-stable dollar. Thus, if an asset were purchased for $100 at a time when the general price index was 100 percent and a year later the general price index had increased to 110 percent, the asset value would be adjusted to $110. This method has the advantage of reflecting comparable measurements for transactions entered into at different times. All information is reported in terms of equivalent purchasing power units. The major disadvantage of this approach is that it is based upon an average index comprised of the price changes of a sample of all goods and services. It is clear that some asset values rise faster than others. It is also possible, though rare, that some actually decline (examples can be found in the electronic industry—computers, calculators). Thus to price-level adjust all transactions using a general index may, in fact, reflect values further from the actual situation than to use the historical cost based upon exchange values at the date of transaction. The price-level approach may also become quite complicated; therefore not useful for the general public.

Current Value

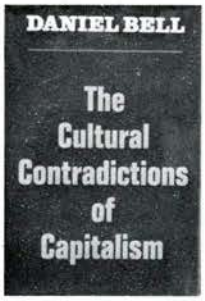
Another approach which has been frequently suggested is to abandon the historical cost approach and to adopt current-value accounting. This method would, in effect, value all assets, liabilities, and equities at the current economic value at the date financial statements are prepared. The difference between the valuation at various reporting dates would be the measure of success of business activity. Conceptually this approach has appeal, but implementation presents some real problems. The major difficulty is obtaining accurate valuations that may be verified objectively so that the reader has confidence in the figures presented. For example, the current market price of marketable securities can be readily obtained, but how do you determine the replacement cost or the current economic value of a plant that is 30 years old and still servicing the needs of a particular firm? If a company were to replace that facility it would cost them much more, but there could be technological advances—the building could be built at a different location and a number of factors could be changed. It is difficult to assess an ongoing market value to such a facility. In this same connection, there is considerable concern among members of the accounting profession that the measurements presented in current value models would not be objectively determinable and might present misleading information to the public. Another problem is the potential for deliberate misstatement by dishonest managements.

Some Pros and Cons

It is clear that businessmen can no longer ignore the problems created by an inflationary economy. Financial statements showing only historical costs can be criticized for not reflecting the current economic situation of a business enterprise. However, the suggested solutions for the problem are not without drawbacks either. Development of appropriate indices, selection of valid valuation techniques, education of the public, and reformatting of financial statements are among the types of problems that will be involved in changing from the historical cost basis of accounting. Critics contend that the accounting information currently presented is not as relevant to economic decisions as it should be. Those favoring retention of the historical cost model argue that a move to current value accounting will increase the subjectivity of the accounting information beyond what the public desires. The challenge for the future is to provide relevant information that can be useful for assisting in the decision-making process, but that is also objectively verifiable so that the readers of financial statements can have confidence in the information presented. ■



EXCHANGE BOOKS



The Cultural Contradictions of Capitalism
Daniel Bell
Basic Books, 1976

Harvard sociologist Daniel Bell is known as one of America's most important social critics. His interests range from economics and politics to educational reform and art history. He is equally at home in theory and in the practical world of policy formation. Over the years he has become a sought-after adviser to government agencies and to academic and business institutions. In his volume, *The Cultural Contradictions of Capitalism*, Bell draws on his broad background to approach contemporary society (largely American society) from multiple perspectives.

At the heart of Bell's thesis is his theory of the disjunction of realms, a theory that argues that contemporary society is divided into three separate and sometimes incongruent elements--the techno-economic structure, the polity, and the culture. Bell argues that these realms function in different ways and that they often contradict each other. Thus, a stimulus effecting change in the economic sphere may differ from one creating change in the area of social justice or in the arts and religion. Bell states that it is therefore quite possible for a person to be a "conservative" in religious views and a "liberal" in the realms of the polity, etc.

The "cultural contradictions of capitalism" to which Bell's title refers are essentially the conflicts that occur between the capitalist economic system, with its attendant values, and a culture that Bell calls "modernism." The techno-economic order "is ruled by an economic principle defined in terms of production through the ordering of things, including men as things." But culture "is prodigal, promiscuous, dominated by an antirational, antiintellectual temper in which the self is taken as the touchstone of cultural judgments, and the effect on the self is taken as the measure of the aesthetic worth of experience."

Bell supports his theory of cultural-economic disjunction with a wide-ranging analysis of modern culture. He treats the arts, literature, sexual behavior, philosophy, and religion and sees in all of these areas a tendency toward lack of restraint and hedonism. He locates the source of this hedonism in the "rampant individualism" of middle-class economics. But he feels that when this individualism spreads to cultural areas, it begins to work against the economic system.

If Bell's thesis is correct, the consequences are obvious: we will have an economic system in which hard work, savings, efficiency, and the like continue to be highly valued, and at the same time will have a culture that increasingly emphasizes pleasure, self-gratification, and consumption. Sometimes, in fact, the former system will encourage the latter behavior. Advertising, in an attempt to stimulate economic growth, may glorify the very hedonism that undermines the ethic upon which capitalism is based.

The Cultural Contradictions of Capitalism is a book filled with thought-provoking ideas about modern society. Whether or not the reader agrees with Bell's conclusions, he will find the book an excellent stimulus for thought about present American conditions.

—Todd A. Britsch
Associate Professor
of Humanities

Blind Ambition: The White House Years
John Dean
Simon and Schuster, 1976

John Dean's book is rooted in ambition and grows from his Nixon-era Senate testimony. The book is distinguished from the others in the Watergate literary foliage by its anecdotes and details that Dean was either too honest or too shrewd to present before. Yet, Dean presents many facts but little self-revelation.

He reveals this tendency early in the first chapter: "As always, I was masking my inner calculations and feelings, this time behind an appearance of friendly sincerity."

Dean works in an organization that considers itself under siege. Control is tight, and loyalty is the price of trust. It is not until he is

being groomed to be a scapegoat that Dean finally enters the inner circle of power.

In the midst of all this activity, he takes little time for reflection. Even in retrospect, Dean seldom discusses his own feelings about his "inner game plan" and its growing consequences. In spite of his skill in gaining external power symbols, he remains curiously blind to the cancer growing around the Presidency and its effect in his own life.

"I seldom, if ever, talked about my office problems at home, because I didn't want the unpleasantness to spread into my marriage," he writes.

The unpleasantness spreads everywhere. His wife is morose. Dean reports that he began to eat and drink extensively. Stung when columnist Joseph Alsop called him a "bottom-dwelling slug," he, nevertheless, produces more game plans.

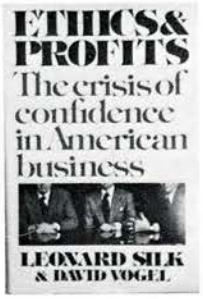
Dean endures. With his credibility largely supported by Nixon's tapes, he cooperates with the prosecutors. He prepares his testimony by day in a plush Justice Department office and spends his nights in his prison cell, carefully decorated with photographs and plants. After Dean's testimony against his associates, the Justice Department reduces his sentence to "time served."

Dean ends his account by saying, "Everything is different now." The reader is not so sure, because Dean never comes out of the shade. We are asked to take his word that he has changed. "In those days," he tells a friend, "only one thing was important. Getting ahead."

"Why?"

"I'm not sure."

—Virginia Lowe
Graduate Student



Ethics and Profits
Leonard Silk and David Vogel
Simon and Schuster, 1976

Ethics and Profits is a disappointment. It is only in the last chapter, after 218 tedious pages of background information, that ethical behavior and the need for a transcendent ideology are considered. The ethical observations are rigorously nonprescriptive and conclude with the obvious--there has been a significant degeneration in the moral fiber of America, and something should probably be done about it.

The book's most significant ethical contribution is the suggestion that the wisdom deposited in our moral ideals is so heavily obscured, so encrusted with pious fraud, that it might be appropriate to redefine traditional moral imperatives, allowing them to give way at times to accommodate inevitable change. Unfortunately, the concept is not further developed.

On another level the book has a negative, almost perverse, significance that is probably best characterized as mass executive hysteria and paranoia.

Today's executives vociferously espouse the benefits of the free market, but they worship political and industrial freedom only in the abstract. This inconsistency, however, is certainly not new. Adam Smith observed that businessmen in the same trade "seldom meet together . . . but the conversation ends up in a conspiracy against the public, or in some contrivance to raise prices." He then concluded that "the proposal of any new law for regulation of commerce which comes from this order . . . ought never to be adopted till having been long and carefully examined . . . with the most suspicious attention." A healthier dose of suspicious attention might have given us fewer business-supported free market constraints, such as tariffs, fair-trade laws, oil import quotas, and "voluntary" restraints by foreign exporters.

According to Silk and Vogel, there is still a persistent belief among America's executives that ethical imperatives, freedom, and the American way of life can only be preserved by the Christian men to whom God in his infinite wisdom has given the property interests of this country; that executive financial rewards and privileged lives are the consequences of their great contributions to society; that what is good for business is indeed good for America; that the majority of this nation's citizens would support American business if only they understood it; and that contemporary criticism of America's business ethic--the calls for reform and for social responsibility--are coming from a liberal, antibusiness press and from those who are enemies of the system.

The distressing picture of America's business elite that emerges from *Ethics and Profits* is one of an incredible Nixonian inability to understand themselves within the philosophical, political, moral, and ethical context of their society.

—Clay S. Green, MBA '74
Assistant Vice-President
Bank of America ■

EXCHANGE: SPEAKING OUT

GENERAL ELECTRIC'S REGINALD JONES

As chairman of the board and chief executive officer of General Electric Company, Reginald H. Jones, 59, is responsible to more than one-half million shareholders. In addition he serves as a member of the President's Export Council, a member of the Business Council Executive Committee, and cochairman of the Business Roundtable. Joining a GE business training course in 1939, Jones held various company management posts in accounting, manufacturing, and finance, before he was named to his current position in December 1972. In an interview with Exchange *editor Mary Kay Stout, Jones discussed GE's merger with Utah International, the activities of his board, and his recent tax reform proposals before the Senate Budget Committee, among other subjects.*

What is the background and the purpose of the Business Roundtable?

As business leaders we were confronted with statements coming out of Washington to the effect that whenever any issue was raised, labor could present a monolithic position, but business was all over the spectrum. Government leaders and others felt business could not offer any kind of single voice on issues significant to our nation. And, furthermore, even when business did come to speak in Washington, it sent its staff members or junior officers. After having received so many admonitions of this type, a group of chief executive officers got together to form something called the Business Roundtable. The only requirement is that if you are going to become a member of the Business Roundtable, you have to be willing, as the chief executive officer, to come to the meetings and to personally be a spokesman in Washington for a particular industry. You do not send one of your associates to do the job that you have agreed and selected to do.

What are some of the Roundtable's activities?

There are roughly 160 companies represented in the Roundtable. The policy committee meets rather frequently and appoints task forces on significant areas of concern. There is a task force, for example, on taxation, which I chair. There are other task forces on environmental concerns, energy, consumer legislation, corporate governance, and so on. We have found that on many, many issues we can arrive at a single position. This has lead to publishing papers that have been endorsed by the Roundtable and presented to the executive branch of government as well as to individual congressmen and senators.

Do you have a hard time deciding how much time to spend in Washington or with the Roundtable as opposed to the day-to-day business of General Electric?

I look at the chairmanship of the board of directors at the General Electric Company as, essentially, a job involving stewardship. I am a steward, in essence, for the funds that have been invested by our shareowners. In a sense, I am also a steward for the economic lives of our employees. In addition I am a steward for the confidence that our customers have put in our company. Because of these responsibilities, you become a spokesman. I believe that many of the decisions that are made in Washington have more impact on the company than many of the decisions that I might make sitting in the office—such as whether or not we are going to produce an 8-foot or a 9-foot refrigerator. We have individuals who are experts in these areas who make those decisions and develop recommendations. We have tried to organize the company in a way that leaves me some time to concern myself with more general matters—matters that have an impact on the total corporation. This philosophy has enabled me to testify before the House Ways and Means Committee and Senate Budget Committee as well as to meet with the secretary of the treasury and presidential economic advisors. Government is more and more involved in the affairs of business; therefore, I think it

is essential that our views be presented.

What were some of the major points in your recent testimony before the Senate Budget Committee?

The world economy is in such precarious condition that stagnation here could lead the whole world into another recession. Economic stimulus is needed, and the real questions are the size and make-up of the program.

As to size: it may seem strange to hear a businessman warning against too small a program, but the fact is that when you have a $1.7 trillion economy, it takes at least $20 billion, and probably more, to have any significant impact on the course of economic events. Even this sum would have little effect if the program is designed for mere short-term effects and political tokenism. Rather, it should be carefully designed to have multiplier effects, getting at basic problems and resonating through future years by stimulating a permanent expansion of our private sector.

Tax reform, in the form of an improved capital-cost-recovery program and the elimination of the double tax on dividends, is an urgent long-term need. But the most effective way to stimulate business investment immediately and keep it going is to increase the investment tax credit permanently from 10 percent to 13 percent. I say permanently because you are dealing with a long-term problem of underinvestment and declining productivity gains in this country, and a temporary stimulus is not going to make much of a dent in the problem. I advocate that major reliance be placed on a permanent tax cut on the order of $18 billion—$15 billion for individuals and $3 billion for business.

Your merger with Utah International in December 1976 is the largest in history. How will the interests of General Electric be served by this decision?

The merger is a pooling-of-interests arrangement by which Utah International has become a wholly-owned subsidiary of General Electric through a tax-free exchange of 1.3 shares of General Electric Common Stock for each share of Utah International Common Stock. The merger brings General Electric into a whole new area of opportunity—natural resources. This is an area of enormous potential for future earnings growth because the world is industrializing, and demand for fuel and raw materials is increasing rapidly. Second, the Utah merger adds greatly to our well-advanced program of diversification beyond the manufacture of traditional electrical equipment and into the faster-growing materials and services businesses. And third, the Utah merger also advances our strategic objective of becoming a worldwide company.

In addition, Utah International's enormous reserves of natural resources—minerals in the ground—should provide GE with a valuable hedge against worldwide inflation. Natural resources are a basic protection against inflation because there is a finite supply on this planet, and so their value keeps rising over the long term, offsetting the effects of inflation. And finally—the bottom line. Utah has a proven record as an outstanding growth company. It increased its earnings fourteen-fold in the period from 1966 to 1976, with most of that improvement coming in the past five years. Because of its policy of selling the output of its mines on long-term contracts (predominantly in U.S. dollars and with good protection against future cost increases) Utah has a stability of earnings that you won't find in other mining companies.

How did the interests of the two companies mesh?

Edmund Littlefield, chairman of Utah International and a member of the GE board, was interested in diversifying Utah and had to determine how he would do so. He knew he did not have the staff to manage a number of major acquisitions—and they would have to be major to have a degree of diversification. He also knew they were a mining company and did not know anything about manufacturing and retailing. He was also concerned that if they had to bring in all the extra expertise to do that kind of a job, how would they know they could get well-qualified people.

Yet there is one other way to diversify, and that is to merge with a company that is itself diversified. But there are not many companies that could afford to merge and in effect come up with $2 billion, which is the value of Utah International. When Mr. Littlefield looked over the list, he came to the conclusion that the best he could do was the organization in which he served as a director. He knew General Electric was large enough, and certainly diversified.

At the same time we had been thinking about what we were going to do to protect ourselves against inflation. What were we going to do to insure ourselves of new ways to continue our own diversification efforts? It was a rather natural fit with both of us seeking something.

What study was made of the government's reaction to the proposal?

We presented all this material simultaneously to the federal government for consideration by the Department of Justice, the SEC, and by the IRS because we wanted a tax-free merger through the exchange of shares. It took some time to satisfy the Department of Justice, but there were no adverse impacts. They were particularly concerned with the fact that Utah was a uranium business and we were in the nuclear reactor business. They felt we might have an advantage in the nuclear reactor business by being able to offer uranium supplies with our nuclear reactors. To counter that concern we developed the concept of establishing a separate company that will hold the uranium business of Utah and will report to five independent trustees. And while we will enjoy the stream of earnings from that business, the stock is in trust and is handled by trustees. They will see to it that General Electric itself does not acquire any of that uranium for offerings with its nuclear reactors.

MANY OF THE DECISIONS THAT ARE MADE IN WASHINGTON HAVE MORE IMPACT ON THE COMPANY THAN MANY OF THE DECISIONS THAT I MIGHT MAKE SITTING IN THE OFFICE— SUCH AS WHETHER OR NOT WE ARE GOING TO PRODUCE AN 8-FOOT OR A 9-FOOT REFRIGERATOR

How has General Electric looked to minimize risks of international investments?

We realize that it is unfashionable in some quarters to speak about expanding international operations because of understandable concerns about the pause in the world's economic recovery. I think Barton Biggs, research director of Morgan Stanley and Company, put the situation in perspective when he said that generalizations about foreign earnings are dangerously simplistic, and that foreign earnings "must be evaluated country-by-country, by asset exposure, by manufacturing exposure, currency risk, and the degree of management sophistication."

GE has minimized its risks by being highly selective in its international investments and by concentrating its exports on the high-technology equipment by which nations build their industrial infrastructure–power plants, transportation equipment, and industrial systems. Our fastest-growing markets for such equipment are the resource-rich countries that have broad-scale development programs which are relatively immune to the ups and downs of the cycles. By its very nature, Utah International is also operating in resource-rich countries; thus, the company complements our basic strategy of helping these nations realize their aspirations for economic growth.

International sales for GE have been growing twice as fast as domestic sales, and two-thirds of our international business has been coming from countries which are growing faster than the United States. But these economic growth rates are less important than our rates of penetration into world markets. Our share of foreign markets is generally quite small, less than 5 per cent for most products except for power generation and transportation items, and so there is ample headroom for growth. Utah's International operations should especially help to build our customer acceptance in Australia and Brazil, as well as in Japan and Europe.

This planet is undeniably growing smaller and more interdependent, and worldwide marketing, sources of products, and competition are the wave of the future. Companies that limit their horizons to our country are restricted in their strategic potential. Of course we have to protect ourselves against cyclical swings and currency fluctuations in various markets, and we have plenty of experience in that regard. But it's the long-term concept that governs General Electric's international strategy, not temporary cyclical considerations.

What is the composition of your board of directors?

Let me open by saying that we have a very energetic board, a board that is primarily an "outsider" board. Of the 18 members at the present time, only three of us are internally related to General Electric.

The others are all external to GE and are individuals who have reached positions of preeminence in their own industries or in their own pursuits. They range all the way from educators and bankers to industrialists and retailers. The entire board meets together for ten sessions a year, and our attendance exceeds 90 percent.

What are the board's working-assignment areas?

We have six committees, and they meet throughout the year. Attendance here also exceeds 90 percent. Let me outline the committees that we have on the board.

The Audit Committee is comprised of four outside directors.They meet once or twice every year with the independent certified public accountants that audit our books without our presence. They review the annual report and the proxy statement with the CPAs. Committee members also direct our internal audit staff. They can meet with them privately if they feel this is in order, and it gives them an opportunity to ask these auditors, both internal and external, whether there are any concerns they have that they perhaps do not want to voice with members of management present.

The Finance Committee reviews all our major appropriations before going to the board for approval. In addition, all proposed investments go before this group. They review the activities of the pension trust with great regularity. All major real-estate ventures are also examined by the committee. If we were going to issue any securities, even if they were securities to be issued in foreign markets, they would be reviewed by the finance committee before going to the board.

The Management Development and Compensation Committee is the most active committee in that it meets at least ten times a year. This group is concerned with executive compensation and, in fact, all the compensation and benefit policies of the company. A very major focus of this committee is our action plan to develop executives for the future. We meet with them and review in great detail our management succession planning. They take a strong interest in training programs and the moves that we have scheduled among the executive management. They look to see that we round out the background and training of the successor generation of management. No member of the General Electric family sits on that committee; all are outside directors.

The Operations Committee takes on major "operating" concerns. For example, we have made some rather major changes in our nuclear energy operations. The background on the nuclear business of the company was presented to the committee, as well as all of our projections and plans. We then receive their counsel and guidance. And when you get people of the diverse background that is represented on a committee such as this, it is interesting that you get perspectives and inputs that, perhaps because you are so close to the problem, you would not see or develop yourself.

The Public Issues Committee concerns itself with how we relate to our various publics. The members examine our efforts to provide equal employment opportunities for minorities and women. They look at such issues as antiboycott legislation and the company's position in this regard. They, in fact, concern themselves with all of our public relations work. They are presented with the matrix of public issues that we see confronting American industry, in general and in this corporation specifically, and they are shown the plans and programs that we have developed in regard to those issues. They are very frank to say that they think we ought to give more or less priority to a particular subject, or perhaps we should change some of our PR activities. Their perspective is invaluable to those of us who are so close to the issues of the company that we

sometimes cannot see the forest—just a lot of trees.

The Technology and Science Committee is the one to which we present the overall program for research and development. We have the vice president of corporate research and development appear before the committee and give his views as to where he would like to put some of his funds. The committee members are able to say to him, based on their experience, whether there are specific fields that are not receiving sufficient attention and emphasis. The vice president may then come back to me and say, "Well, instead of diverting the budget you have already given me, why don't we invest more funds to do some of the things that the committee has talked about." And we generally do this.

Would you categorize the majority of your managerial concerns as "task-oriented" or "human systems-oriented"?

In a corporation such as this one, you can only get your job done through people. There is no way that I alone can know enough about the diverse businesses of this company to make intelligent decisions in all areas. I have to rely on others. When I testify before Congress, it is not possible for me to have done all of the detailed analysis required to support the position I take. As I often say, I'm just the mouthpiece of this group because they really do all of the analytical work.

Yet I do not think that there is any question that we have technological or task problems, but these are all resolved, or not resolved, by people. If you have the right people and the right organizational structure so that they have the delegation required to get on with the job, and the authority to do the job, you will come up with a pretty good batting average in meeting those task problems. In the end, it boils down to solving problems through people.

What characteristics would you say often block individuals from moving into top managerial posts?

Our political-social-economic environment is changing. Business has to prepare to meet these new situations. When it comes to top executive prospects, I have had my disappointments. I have had some individuals who I thought had extraordinarily high IQ's, great capabilities, great industry and diligence, high ethics and morality—but, they were lacking in sensitivity. We just had to say, "Well, that individual is not going to deal effectively with some of the problems he will be facing. We will just have to drop him from consideration."

What do you think has been your greatest contribution to General Electric?

I think the biggest job that faces any chief executive officer is the development of successors. If he does not develop successors who can manage the corporation after he leaves, the corporation does not have continuity. It does not really have a future. I try to spend a great deal of time working with my successors, the half dozen or so that are most likely to be in the next generation of top management. In this area I have the opportunity to work with the company's vice-chairmen and say, why don't we move this man into this kind of job? Why don't we test him on this? Or, Why don't we throw this extracurricular activity to this man? and so on. This is to insure that they are getting the development, the training, and the rounding that is necessary to operate in what will be, unquestionably, a more difficult environment than the one in which I operate.

THIS PLANET IS UNDENIABLY GROWING SMALLER AND MORE INTERDEPENDENT, AND WORLDWIDE MARKETING, SOURCING, AND COMPETITION ARE THE WAVE OF THE FUTURE. COMPANIES THAT LIMIT THEIR HORIZONS TO OUR COUNTRY ARE RESTRICTED IN THEIR STRATEGIC POTENTIAL

We think that we can do a pretty good job of bringing up people who understand manufacturing, engineering, accounting, and employee relations and so on. But we must also bring up managers who are going to be extremely sensitive to the external problems of the corporation—the problems that are going to be impacting the internal affairs of the corporation.

It is our aim that the company be responsive to the needs of society, and we are going to continue to be concerned with the activities of our government. But it is going to take a very, very capable individual with great sensitivity to handle the responsibilities ahead of a future chief executive officer of General Electric. ■

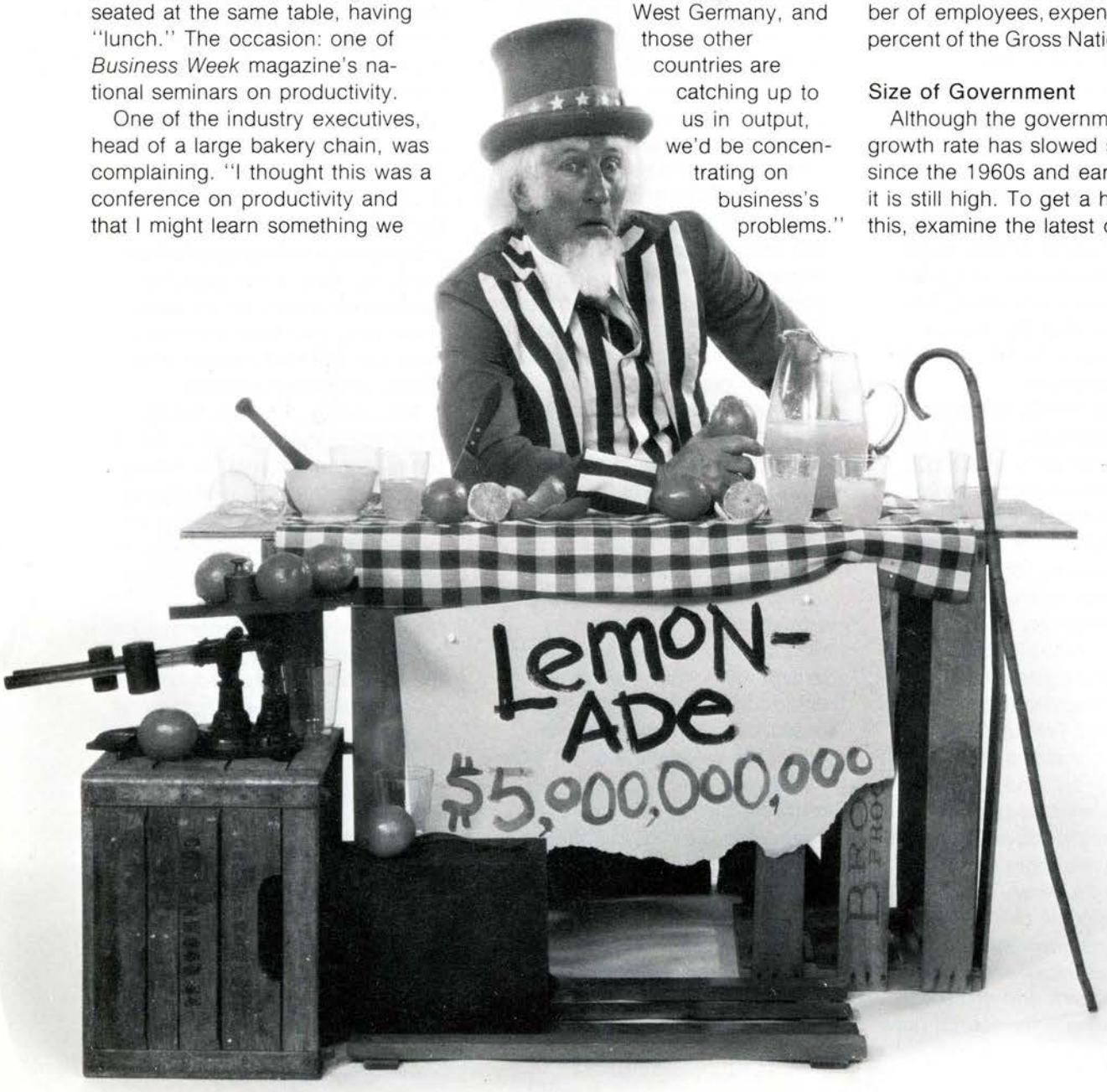
Increasing Government Productivity

by LeRoy F. Harlow

The place was a San Francisco hotel dining room; the date, October 11, 1972; the time, 9:45 a.m. Seven of us--two industry executives, two government officials, two consultants, and I--were seated at the same table, having "lunch." The occasion: one of *Business Week* magazine's national seminars on productivity.

One of the industry executives, head of a large bakery chain, was complaining. "I thought this was a conference on productivity and that I might learn something we can use in our plants. Instead, all they're talking about is government. I couldn't care less."

The other private executive heartily agreed: "I thought with the record showing how Japan, West Germany, and those other countries are catching up to us in output, we'd be concentrating on business's problems."



Why this attention to government? Because, for the first time in American history, state and local government is the fastest-growing sector of the American economy when measured by number of employees, expenditures, and percent of the Gross National Product.

Size of Government

Although the government's growth rate has slowed somewhat since the 1960s and early 1970s, it is still high. To get a handle on this, examine the latest official

tally (from the 1972 Census of Governments):

Counties	3,044
Municipalities	18,517
Townships	16,991
School districts	15,781
Other special districts	23,885
Total	78,218

In 1975 all of the governments--federal, state, and local--employed 15 million civilian workers. One out of every five civilians in nonagricultural employment works for government. The federal government employs 2,900,000; the 50 state governments, 3,300,000; and the 78,000 local governments, 8,800,000.

Federal civilian employment has increased three-quarters of a million since 1950, but local government employment has increased five and three-quarters million during the same period. Today, our local governments employ three times as many people as the federal government, and nearly 50 percent more than the federal government and the 50 state governments combined.

In terms of comparative growth in national economic impact, the federal government's direct expenditures (this excludes pass-through transfers to state and local governments) are five times what they were in 1950, while local government's direct expenditures are almost ten times what they were in 1950. Purchases and payments by all governments account for about one-third of the Gross National Product. The Tax Foundation calculates that in any calendar year a taxpayer works the first four months (January through April) for government, before he and his family can begin to use what he earns.

These are some of the reasons the productivity spotlight has been shifted to the public sector and why both citizens and some officials are asking what can be done to increase government productivity.

Who hasn't heard the cliche, "What we need is less government in business and more business in government"? Although some management principles and operation are common to both the private and the public sectors, there are some differences between the two that impede government productivity.

Blocking Productivity

Perhaps the best examples of impediments to increased public sector productivity can be found in local government, the largest and fastest growing of the three levels of government.

One impediment is the lack of uniform budgeting, accounting, and reporting. A private business, unless it knows where it has been, where it stands, and where it is headed--both as to finance and operations--may fail. But a government unit, having no competition and with the taxing power to fall back on, can't fail. Therefore, governmental managers are under no pressure to set up and use systems that show goals, objects of expenditure, work units, unit costs, man-hours or man-years used, progress to goals, and year-to-year and government-to-government comparisons of performance and productivity.

With few exceptions, local governments are not manned by skilled administrative analysts or persons with know-how in planning, instituting, and carrying out productivity-improvement programs. At the same time, in labor-intensive situations, which are characteristic of local governments, the greatest opportunity for savings is through technological advances. Yet, in most cases, individual local governments do not have the funds to either research or develop new technology; and there is not enough cohesion among local units to join in funding necessary research and development projects. This leaves technological development up to the private sector. On the other hand, because of lack of cohesion in the public sector and certain legal restrictions, governments cannot create a market that would provide payback to inventors and manufacturers who risk their capital. The result is that neither the public nor the private sector meets the needs for technological exploration, development, and application.

Both the private and public sectors have learned that productivity improvement efforts are sometimes counterproductive. For government, this can be particularly significant because of government's social responsibilities. For example, it may be clear that productivity can be increased by reductions in force. But to do so may result in increased unemployment, or, when a few selective productivity measures are used, employees may favor the measured activities and neglect other equally important activities.

The newest condition facing government managers is in the labor-management area, including collective bargaining and related labor-management adversary activities. For a century or more, private managers have been active participants in these confrontations; but only recently have public managers been forced to the bargaining table. (Not only is unionization of government workers the fastest-growing segment of the American labor movement, but a recent survey by the U.S. Civil Service Commission indicates that 57 percent of public employees are now unionized as compared with only 27 percent of employees in the private sector; significantly, if it were not for this public sector growth, the total labor movement would be showing a net loss in membership.)

Public managers are at a double disadvantage in their labor relations. First, because strikes of public employees have been illegal, managers in the public sector have not had to become skilled bargainers. But legal prohibitions of strikes have been meaningless, for no local government body can put in jail all the local teachers or policemen or firemen. Second, for the public manager, the people across the bargaining table are the people who may vote him out of office.

More for Less

When citizens say they want more and better government at less cost, they are saying they want greater government productivity. This is within reach of every community and state and even the national government. Yet citizens must require of their officials that government be more productive. The following should be considered:

--Officials should employ and retain trained professional productivity administrators to impartially implement workable policies and programs. This applies especially to state and local governments, where career service is less common than at the federal level, and where transition from one administration to another often means a clean sweep of trained and experienced people. To assure continuity of planned programs for productivity improvement, the administrators of such programs should be in office on a continuing basis, so long as their professional work is objective and progressive.

--Apply uniform budgeting, general and cost accounting, and reporting. Reports on performance and productivity should generate data to be fed into a central data bank for tabulation, analysis, and dissemination. Data are essential for making comparisons over time, among jurisdictions, among units within a jurisdiction, and among activities within jurisdictions. More specifically, data are needed to identify problem areas, to show progress toward objectives, to relate to incentive plans, and for a dozen other uses of benefit to all concerned--management, employees, and the public.

--Physical inventories should be placed and kept under control. Inventory control systems could save money directly and have a positive psychological effect, transferable to other activities, by causing employees to become cost-conscious.

UNLESS A GOVERNMENT'S ACTIVITIES ARE MEASURED, THERE IS NO PROOF IT HAS PROGRESSED. GOVERNMENT BUDGETS SHOULD INCORPORATE GOALS, OBJECTS OF EXPENDITURE, WORK UNITS, UNIT COSTS, INPUTS . . .

--Performance-type budgets should be used. Unless a government's activities are measured, there is no proof it has progressed. Government budgets should incorporate goals, objects of expenditure, work units, unit costs, inputs, progress to goals, and year-to-year comparisons of performance.

--Productivity should be measured in the performance of at least the major functions of government. Which functions/activities cost the most, or are growing most rapidly? Which are of greatest concern to the public? Which are most useful for making comparisons from period to period and government to government? When these output measures are divided by the input of man-hours, we have the classical definition of productivity--output per man-hour. As the process is refined, additional ratios can be calculated by using other inputs such as units of tax base or units of capital investment. When the outputs are divided into corresponding dollar expenditures, we get unit costs.

--Every few years the results of impartial, outside, professional audits of organization, management, and operations should be made and reported to the public. Experienced, outside management counseling organizations have the time and capability, as well as the needed objectivity, to point out where government structure, policies, management practices, procedures, and methods deviate from those followed by successful private and public organizations. Where resistance to outsiders' examination of governments is great and precludes such management audits, governments can use fellow government personnel to comprise accreditation teams.

--Where appropriate, the techniques of work simplification, work measurement, motion economy, advanced technology, and organizational behavior should be applied. This may range from shop and office layout to the latest theories and practice of interpersonal relations.

There is no dearth of information or assistance for any government wishing to raise the level of its productivity. Government managers should be rewarded for improving productivity, and citizens should keep the pressure on until noticeable results are achieved. ■

Material for this article is drawn from the author's book, ***Without Fear or Favor; Odyssey of a City Manager,*** *Brigham Young University Press, 1977.*

National Advisory Council member Douglas H. Driggs (center) conferred wih graduate students during the Council's annual meetings

Active in an Advisory Capacity

James H. Evans, president of Union Pacific Corporation, was awarded the International Businessman of the Year Award at the college's annual National Advisory Council meetings. In addition, NAC members spent three days fielding questions from students and discussing such topics as public attitudes toward business, current-value accounting, and costs of government regulation.

During the sessions Lorenzo N. Hoopes (Safeway Stores, senior vice-president) replaced Robert N. Sears (Phillips Petroleum, senior vice-president and director) as chairman of the council. NAC members also heard Olga Company President Jan J. Erteszek address the subject of free enterprise and Christian values.

Evans told NAC members and faculty that in order to "achieve goals such as sound growth, fuller employment, and adequate capital formation, we should look to the enterprise of free men, not to Big Government."

He added, "Using the resources of private enterprise to create jobs and thus reduce unemployment to manageable levels would mean, of course, resuming the pattern of economic growth that has characterized this country through most of its history, right up until the early 1970s."

A director of Dun and Bradstreet and Bristol-Meyers, Evans is also a trustee of New York's Seamen's Bank for Savings.

For the more than 50 NAC members attending the meetings, round table discussions provided an opportunity to meet with students.

D. Lee Tobler (vice-president and treasurer, Aetna Life and Casualty) answered questions on executive mobility and preparing for job interviews. John Taylor (media supervisor, Proctor and Gamble) told of marketing activities at P and G and career paths for hirees.

Robert D. Bolinder (chief executive officer, Albertson's) focused on the impact of technological hardware in retailing. Students asked J. Knight Allen (consultant, Bechtel) about the advantages of private vs. public company ownership as well as the dangers of organizational inbreeding arising from internal promotions. Inquiries as to how a company is financed and what job opportunities are available were put to William N. Jones (chairman of the board, Electro Control, Inc.).

BYU faculty member presentations during the meetings included current-value accounting—adjusting for inflation (Jay M. Smith); career patterns of professional employees (Paul H. Thompson and Gene W. Dalton); the impact of tax reforms on both individuals and corporations (G. Fred Streuling, Jay M. White, and Boyd C. Randall); deceptive and corrective advertising (H. Keith Hunt); and increasing advertising effectiveness (Darral G. Clarke).

Other subjects were the expanding role of the financial manager (Stephen D. Nadauld and Robert H. Daines); the costs of government regulation (Martin J. Wistisen); and reorganization in the federal government following a national election (Karl N. Snow).

A joint faculty-NAC luncheon

featured comments by Jan Erteszek, founder and president of the California-based Olga Company. Erteszek told the group, "As business leaders, you must be duly concerned over the tarnished image of the businessman and business as an institution. For, indeed, any spiraling of this state of affairs could represent a real threat to the free enterprise system and to the survival of our free society."

The Women's Committee, headed by Kay H. Cullimore, sponsored sessions for NAC members' wives and student wives on adjusting to transfers, handling family finances, and supporting a husband's career.

James H. Evans

According to Dean Merrill J. Bateman, Lorenzo Hoopes's selection as chairman of the National Advisory Council indicates a continuation of NAC efforts in areas such as academic-business-government interface, student placement, and fund raising. Council members also attend regional meetings and visit the campus as speakers throughout the year.

Hoopes succeeds Robert N. Sears, who chaired the Council for four years. ■

You've Come a Long Way, ~~Baby~~

EEO, Affirmative Action, and Title IX—they often frustrate managers. But what about the female coming into the organization? How does she cope with competition, aggression, and male-dominated power struggles?

"Women in Organizations," a new class offered this winter by the Graduate School of Management, looked at many of the problems of sexism in institutions. The course focused on dealing with "sexual straight jackets" for both men and women.

Other issues examined included women in the labor force (subtitled "Is anatomy your destiny?"); institutional oppression ("Slaves, women, and cattle"); career paths ("Repotting Wilma Wallflower"); power and assertiveness ("We've met the enemy and it's a she!"); and Affirmative Action ("The care and feeding of male chauvinists").

The course was taught by Margaret and Warner Woodworth, husband and wife faculty members in the organizational behavior department.

A primary thesis underlying the class was that the women's movement may be the most significant social, economic, and political phenomenon of this century.

"It is already having profound effects on the labor force, population trends, family life-styles, government legislation, etc.," said Margaret Woodworth. "The far-reaching consequences will not be fully known for at least another century.

"Yet, in a sense, the revolution has already occurred. Women have entered the job market in large numbers. Society is now trying to assimilate this drastic shift. In this course we have attempted to explore some of the interesting and important questions these changes have raised," she added.

In addition, her husband stressed some of the effects on males.

"Hopefully, an awareness of these issues will lead to the 'liberation' of men as well as women in our society," said Warner Woodworth. "A critical challenge in the future is going to be the transformation of organizations into more human-oriented systems that emphasize equality for all participants."

The class composition itself was a mix of students and working professionals in law, counseling, industrial management, personnel, organizational development, and public administration.

Texts for the course included Gail Sheehy's *Passages*, Fensterheim and Baer's *Don't Say Yes When You Want to Say No*, Juanita Krepp's *Sex in the Marketplace: American Women at Work*, and Jongeward and Scott's *Affirmative Action for Women*. ■

Preparing the Path to Washington

Anyone who has juggled his or her time, rationale, and patience in an in-basket exercise knows that it is no "reasonable" task. Memos, reports, and letters demand immediate decisions regarding such things as impending strikes, media investigations, conflict-of-interest policies, minority hiring, etc. When cross-examined as to their judgment, more than a few individuals have produced Swiss cheese (i.e., full of holes) logic.

It isn't any easier if you are a Master of Public Administration student faced with the piled-up crises of a city manager. With the help of public sector professionals and organizational behavior graduate students, the second-year MPA students spent three days moving through exercises aimed at evaluating their skills in areas such as leadership, planning, communications, decision making, delegation, and response to changing conditions.

The annual MPA Assessment Center was directed by Dee W. Henderson, professor in the Institute of Government Service. Other participants ranged from the executive director of the Public Service Commission to the city manager of Sherman, Texas.

Orem, Utah, City Manager Al Haines

The organizational behavior students had previously been involved in studying life stages, career planning, and interpersonal dynamics. The O.B. students worked in pairs with the professionals during the interviews, exercises, and feedback sessions.

"Through the assessment program, MPA students acquire a feel for the stress and pressures of work situations and receive candid evaluations," said Dr. Henderson. "Students are then able to analyze their own weaknesses and identify areas to strengthen in order to be more effective managers."

One exercise called for each MPA student to present a proposal to the "city council" (five other students) on county land use. Each of the six "councilmen" and "councilwomen" in turn advocated a project such as an industrial park, hotel/convention center, or hospital. The council then debated the plans and voted.

This "leaderless discussion" helped assessors evaluate reasoning, ability to influence, oral presentation, and perception, among other skills. The ensuing feedback session was geared to helping students recognize their impact on others. ■

Watergate -- From the Bottom Up

"Bob Woodward and I have become the subject of a great deal of mythology," said Carl Bernstein during a visit to BYU. Watergate's leading investigative journalists "employed the most basic, empirical police reporting techniques—the kind taught students in beginning reporting classes."

He added, "All we really have in this business is our credibility. The public is much smarter than either politicians or the press give them credit for. They know when they are being taken for a ride.

"Journalists, in general, are sensitive to criticism. I don't know a good one who isn't, particularly when it comes to how well he does his job."

In covering Watergate he explained, "We worked from the bottom up. We initially talked to clerks, secretaries, chauffeurs, administrative assistants, and low-level employees. This method was diametrically opposed to that of the FBI.

"The FBI made what they called 'a presumption of regularity' about the conduct of men in and around the White House. We made no such presumption. Neither were we predisposed to think that the opposite was the case. We just wanted to see where the facts would take us." ■

Carl Bernstein

Panel participants (from left) Lucille T. Stoddard, Jan L. Tyler, and Kate Kirkham

LOOKING AT THE FEMALE PROFESSIONAL

Women face more alternatives—and also increasingly greater conflicts—in selecting professional careers; this was the conclusion of participants in a panel discussion featured during BYU's Graduate School of Management Week.

One issue covered during the session concerned barriers women face in organization.

Kate Kirkham, an organizational development consultant from Washington, D.C., said that interaction with colleagues and professional credibility are the two barriers which most commonly confront women.

Gary L. Hart, the "token male" panel member and visiting faculty member on leave from IBM, said that in his experience the great majority of women do not desire to do more than what they are presently doing. "Their own self-concept is their greatest barrier."

"In my experience the majority of men are not ready for large numbers of females with professional roles." Yet, he added, a well-prepared female is sought after in today's business world.

Kirkham also pointed out that "problems in marriages and work choice result from the lack of early discussion of such matters, and this leads to a limitation of the options for each partner."

Other panel participants were BYU faculty member Jan L. Tyler; Marilyn Arnold, faculty member and administrative assistant to President Dallin H. Oaks; and Lucille T. Stoddard, chairman of the business division at Utah Technical College. ■

Reagan on Federal Spending

Former California Governor Ronald Reagan visited campus to speak with students about politics, federal spending, and the marketplace. His comments included—

"It is hard to picture money sums when they get really large. I have tried before. I have pointed out that if you have a four-inch stack of $1,000 bills you would be a millionaire. If a man sent his wife on a shopping spree, spending $1,000 a day, she would not be home for three years. Now if he gave her a billion dollars and told her to go out and do the same thing, she wouldn't come home for 3,000 years.

"One billion minutes ago Christ was walking on this earth. One billion hours ago fire had not yet been discovered. One billion dollars ago in Washington was *yesterday*.

"And it's a billion today, a billion tomorrow, a billion each day for seven days of the week. And every seventh day they borrow another two billion dollars because the other is not enough.

"How do we get to a trillion? Well, if you started spending a million dollars a day on the day that Christ was born, and had done so seven days a week for these nearly 2,000 years, you would have 300 years to go before the trillion dollars would be spent. Our national debt is now approaching two-thirds of a trillion—and social security is four trillion dollars out of balance." ■

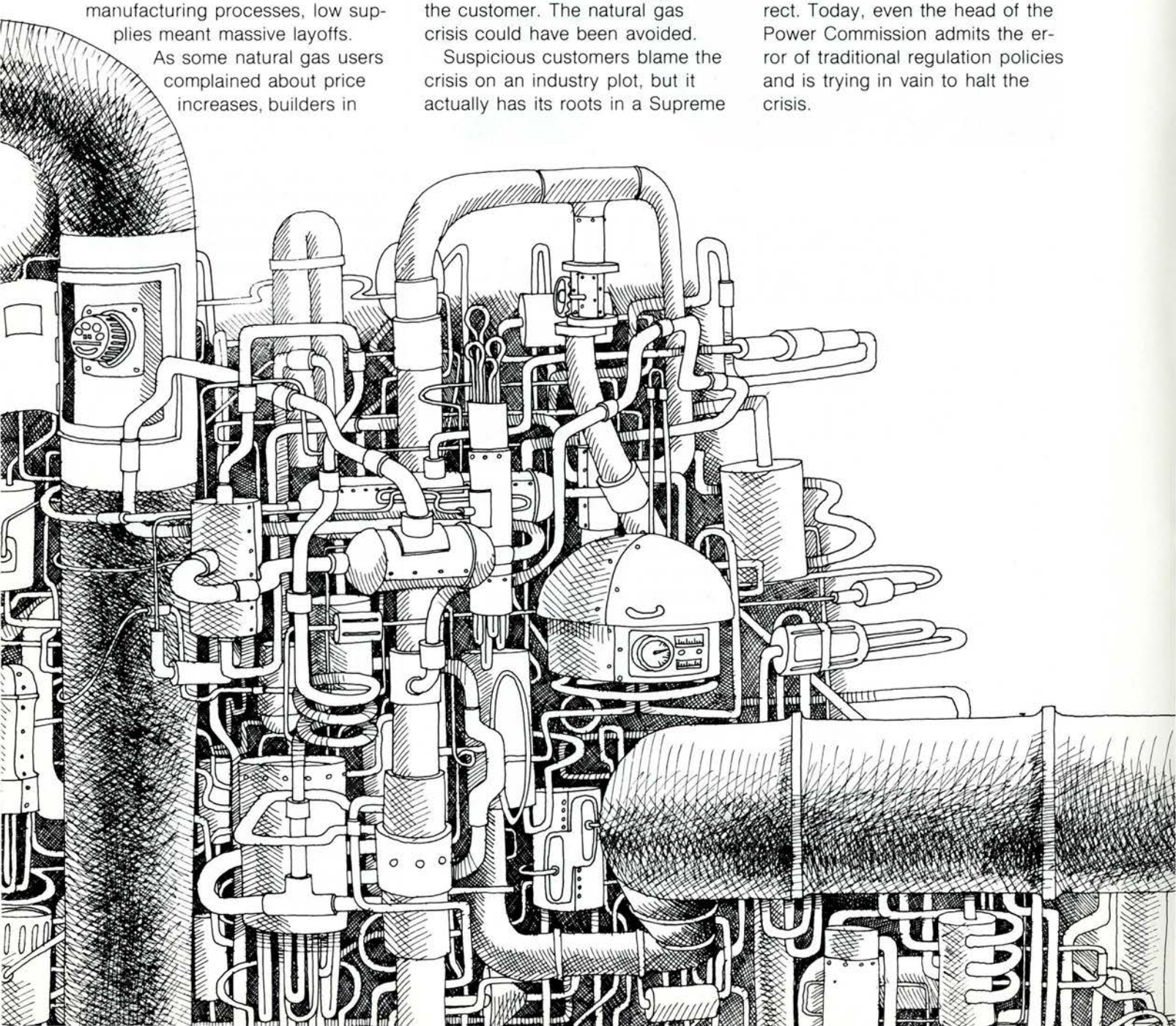
The record lows and snowstorms of this winter have made the energy crisis a cold reality for millions of Americans. It wasn't simply a matter of waiting in line at pumps to buy gasoline for sharply curtailed car trips; the crisis hit in schools and factories that depended on clean-burning, low-cost natural gas. When supplies ran low, the big users were forced to close down to assure a continuing supply to residential users who depend on gas for heating. Because half of U.S. industries use natural gas in their manufacturing processes, low supplies meant massive layoffs.

As some natural gas users complained about price increases, builders in other areas discovered that many local gas utilities were turning away new customers. Chicago, for example, had a waiting list of 14,000 residential customers, 2,000 businesses, and 800 industries. Government and industry experts predict the crisis will become steadily more severe.

The irony of the current gas shortage is that known and potential natural gas reserves are "abundant," according to the 1975 U.S. Geological Survey Report. These resources lie waiting to be discovered and delivered to the customer. The natural gas crisis could have been avoided.

Suspicious customers blame the crisis on an industry plot, but it actually has its roots in a Supreme Court decision handed down in 1954. In a five-to-three decision the Court decided that the Federal Power Commission should take jurisdiction over natural gas rates. In a dissenting opinion Justice William O. Douglas stated, "Regulation of the business of producing natural gas involves considerations of which we know little and with which we are not competent to deal."

The subsequent actions of the Commission form an incredible history of federal mismanagement, proving Justice Douglas to be correct. Today, even the head of the Power Commission admits the error of traditional regulation policies and is trying in vain to halt the crisis.



The FPC responded to its charge by attempting to regulate natural gas producers as if they were public utilities. Each producer in the nation was to have a separate rate based on its cost of providing service to customers. A public utility is able to measure these costs with relative ease. An electric company, for example, has fixed assets: generators fired by coal, water, natural gas, or nuclear energy. These assets can be replaced. The cost of generating and transmitting electricity are well defined, and the utility is granted an exclusive franchise for its area of service. When new capital is needed, the utility can borrow money, using its assets as collateral.

High costs, high risks

In contrast, natural gas producers must explore for their principle assets, natural gas wells, at a high cost and a very high risk. One well costing millions of dollars may yield a dry hole, while another costing less may tap into a vast field.

Natural gas producers have no monopoly privileges. They must compete with thousands of other firms, selling their gas to pipeline companies which, in turn, sell it to local power utilities. Producers depend on these gas sales to finance exploration and drilling for new gas. Banks will not lend money for drilling when the only collateral is the gas that *might* come from the new well.

These factors make it difficult to determine how much it costs to produce gas and thereby determine a fair price.

As the Supreme Court stated:

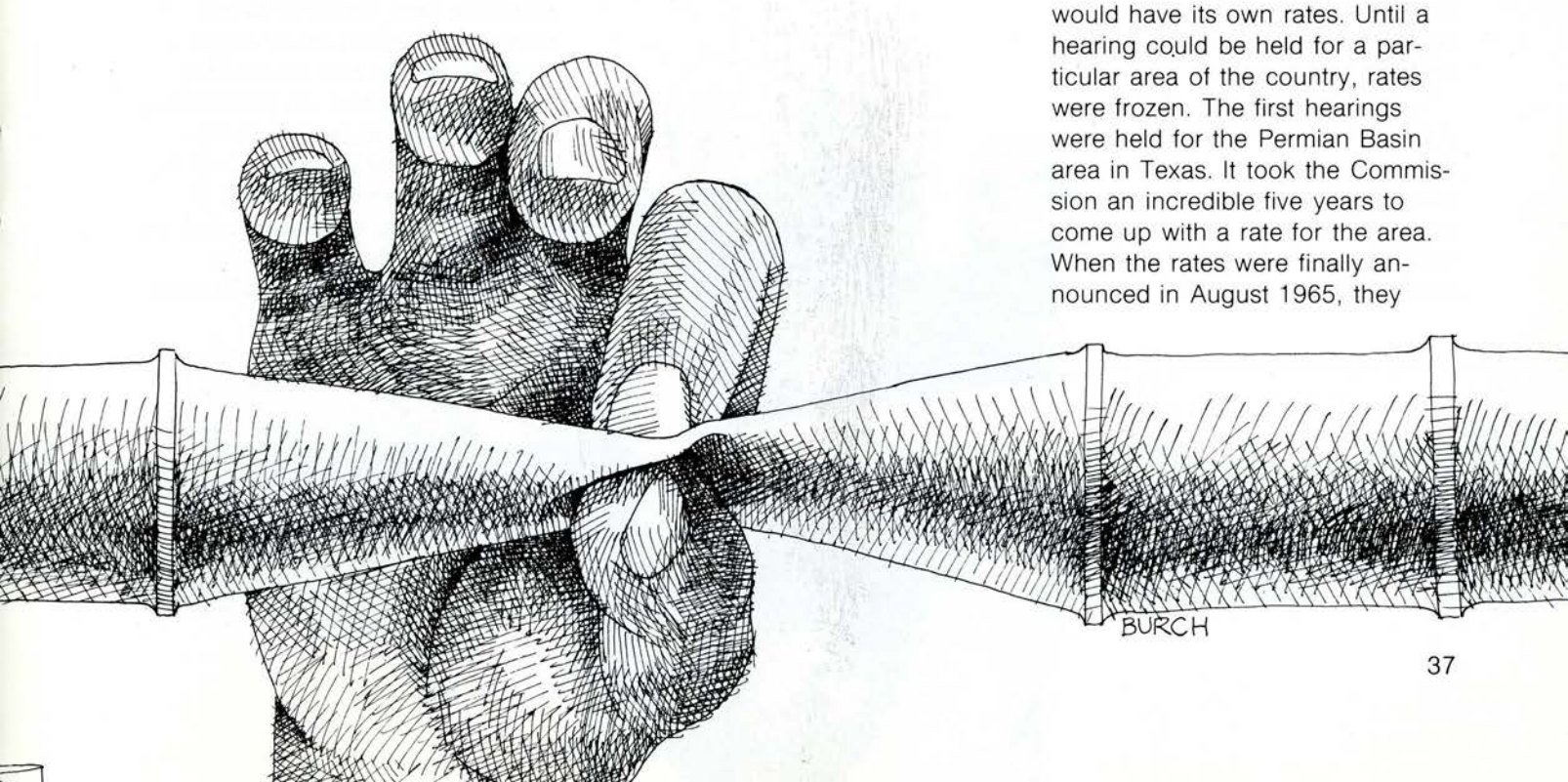
Economists have described these difficulties with repetitive pungency. To make laborious computations purporting to divide costs is nonsense on stilts and has no more meaning than the famous example of predicting the banana crop by its correlation with expenditures of the Royal Navy.

No wonder the Federal Power Commission fell hopelessly behind. The first case alone took 82 hearing days, 235 exhibits, and 10,626 pages of testimony. After struggling for five years, the Commisson gave up, stating "producers of natural gas cannot, by any stretch of the imagination, be properly classified as traditional public utilities." It estimated that, even if its staff were tripled, it would not be able to catch up with individual producer price fixing until the year 2042.

In 1960 the Federal Power Commission geographically mapped out 23 producing areas and announced that each one would have its own rates. Until a hearing could be held for a particular area of the country, rates were frozen. The first hearings were held for the Permian Basin area in Texas. It took the Commission an incredible five years to come up with a rate for the area. When the rates were finally announced in August 1965, they

NATURAL GAS: The Avoidable Crisis

by Victoria Laney



were below ceiling rates set for that area in 1960. Hundreds of lawsuits followed, and the area-rate concept was criticized by many, including Supreme Court Justice Tom Clark. He blamed it for "causing additional delay, delay, and delay, until the inevitable day when there is no more natural gas to regulate."

Low prices, low incentives

Indeed, shortages were already becoming pronounced. Exploratory drilling was cut in half, and little new gas was added to reserves. Although demand (stimulated by low prices) for natural gas was rising, the same low prices gave producers little economic incentive to engage in risky drilling.

At the same time that prices were held at an artificially low level, drilling costs rose steeply. Over the 1961-71 decade, the average price of natural gas sold to interstate pipelines increased 24 percent, while gas drilling costs increased 57 percent. The cost of machines and labor accounted for part of this increase, but it also resulted from the need to drill deeper wells. As shallow wells are depleted, geologists must find less accessible sources. Doubling the depth of a well quadruples the cost per foot of drilling.

In order to raise that money, producers sold more and more gas on the intrastate market. Because gas that is sold within a state is not subject to federal regulation, it can be sold for whatever customers are willing to pay. Generally the intrastate price is 50 to 75¢ per thousand cubic feet above the federal limit, and producers realize even more savings by avoiding the paperwork associated with federal regulation. Industries are willing to pay more for a plentiful supply of gas rather than face the costlier alternative of closing down when supplies are low. As a result, major industries have relocated to energy-rich states.

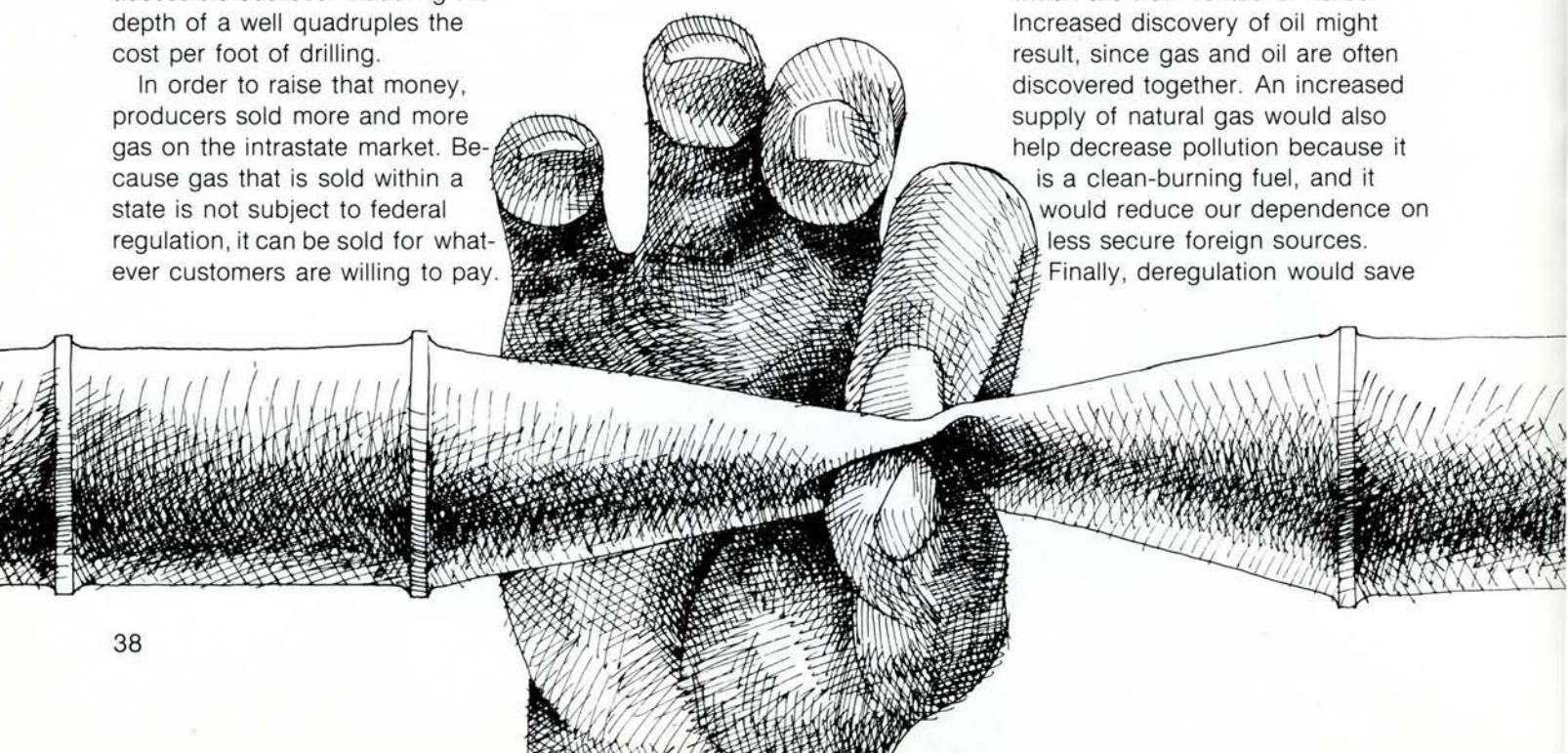
American Gas Association reserve data for 1968 showed for the first time that annual consumption was larger than additions to reserves. The shortage of reserves, however, did not concern people greatly until gas companies actually cut off interruptible customers and refused to serve new ones. By February of 1973 some 15 interstate pipelines were imposing major curtailments. The crisis has grown steadily more acute--today it makes the front-page news.

In response to complaints by angry consumers, the President's Council of Economic Advisers has joined with the Federal Energy Administration and the chairman of the Federal Power Commission in recommending a solution. They agree that one obvious answer would be to decontrol the well-head price of new natural gas to encourage greater exploration and production and to draw the new gas out of the states where it is produced to other states where it is needed.

Pulling the plugs

Deregulation would result in a number of advantages. Aside from giving incentive to develop new gas supplies, such a move would make it economically worthwhile to reopen or continue to run many low-volume wells that might otherwise be plugged. It would be worthwhile to recover gas produced in association with oil wells which are now vented or flared. Increased discovery of oil might result, since gas and oil are often discovered together. An increased supply of natural gas would also help decrease pollution because it is a clean-burning fuel, and it would reduce our dependence on less secure foreign sources. Finally, deregulation would save

The irony of the current gas shortage is that known and potential natural gas reserves are abundant and lie waiting



both the government and private industry millions of dollars in paperwork and administrative and legal costs incurred in rate-case delays.

The arguments for deregulation are compelling, and our legislators have responded with many bills. In 1975 the U.S. Senate approved a deregulation bill and sent it to the House--the bill remained there until adjournment.

In the face of the crisis, the FPC has taken several steps to encourage exploration and interstate sales of gas. First, it raised area rates and allowed for "emergency" purchases of gas on a short term basis at even higher rates. Then, in 1974, the Commission abandoned the area rate approach and set a nationwide price of 42¢ per thousand cubic feet. When the decontrol bill remained in the House, the Commission more than tripled the national price to $1.42 in a desperate effort to stimulate exploration.

This decision led to an immediate court battle, which disappointed producers feel will delay, if not kill, deregulation hopes. As one industry publication stated, "The Federal Power Commission's new national rates for natural gas have killed any Congressional action on deregulation this year and perhaps for years to come as the new rates wind through the administrative and appeals-court maze."

Spreading the shortage

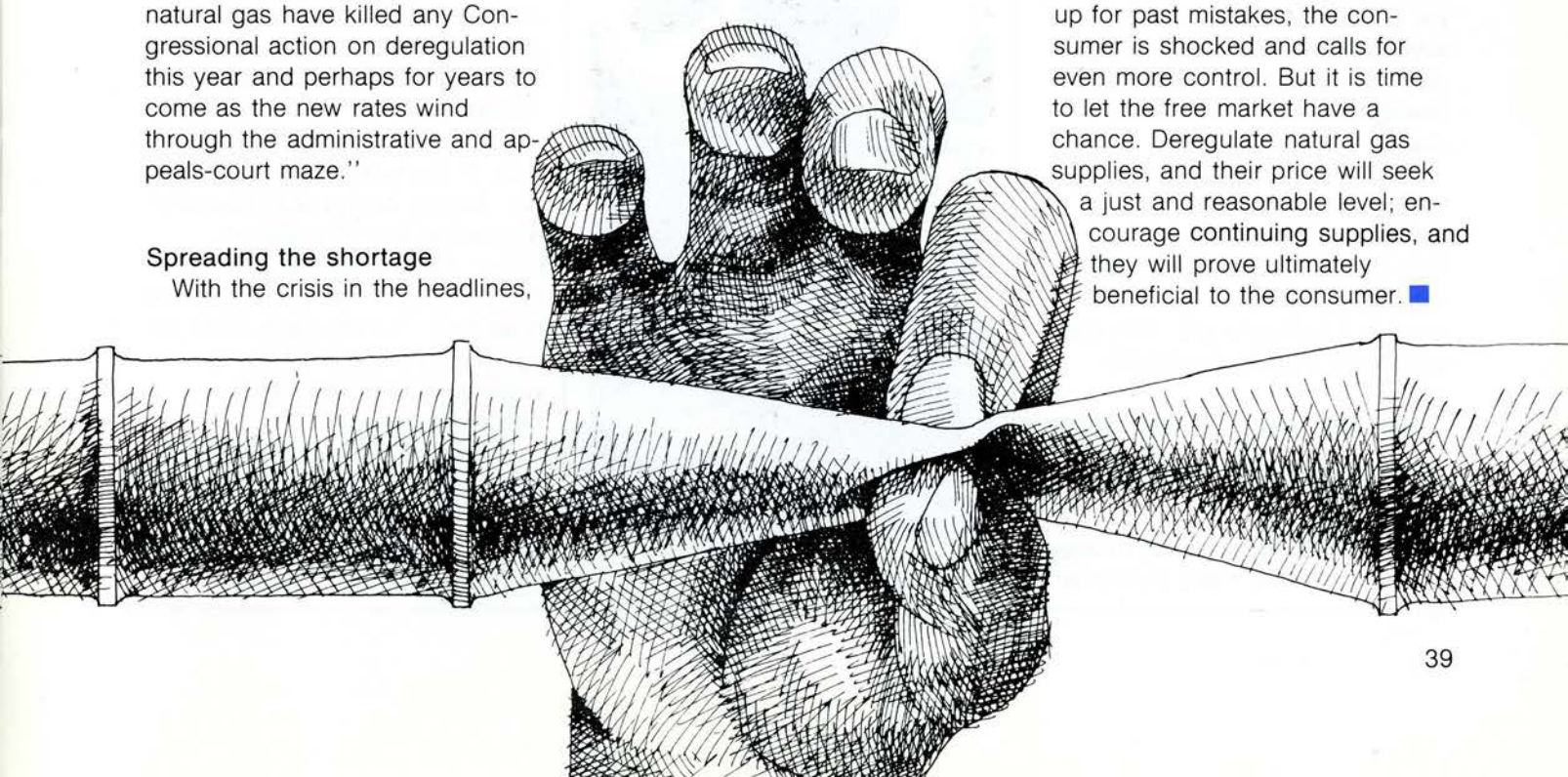
With the crisis in the headlines, industry once again had hopes that a deregulation bill would pass. Instead, emergency legislation was pushed through which authorized a temporary raise in price controls to a $2.00 ceiling. It also called for forced allocation of gas from states which have it to those which don't. This is a way of spreading the shortage around. It isn't a solution.

Opposition to complete deregulation comes from consumer groups who are worried that deregulation of gas sales to interstate pipelines would cause prices paid by homeowners to skyrocket. This would not be the case for two reasons. First, interstate sales are subject to long-term contracts, usually 20 years, that would continue to be binding. Second, the cost of gas service to the consumer will still be regulated by state utility commissions. The price of wellhead gas represents only about 17 percent of the cost of gas service to the customer; the rest of his bill pays the pipeline and the local utility. Customer rates would only reflect the increase within that 17 percent.

Last July's price increase has encouraged exploration and drilling. Many of the small, independent producers who have traditionally found most of our new supplies have been able to return to drilling. Although drilling activity has increased, the price increase has been only a step in the right direction. Deregulation must be the final destination.

For years the courts and the Federal Power Commission have tried one approach after another in an attempt to protect the consumer. Instead, they have subjected him to a critical energy shortage that leaves us dependent on uncertain sources of foreign energy. They have spoiled the consumer with artificially low rates and allowed him to waste the nation's most efficient fuel. Now that the Commission is trying to make up for past mistakes, the consumer is shocked and calls for even more control. But it is time to let the free market have a chance. Deregulate natural gas supplies, and their price will seek a just and reasonable level; encourage continuing supplies, and they will prove ultimately beneficial to the consumer. ■

The consumer has been spoiled with artificially low rates and allowed to waste the nation's most efficient fuel



Service in the Civil Service

The fact is, most women work because they have to support themselves or their families. They are not just looking for supplementary income, according to BYU alumna Sharon Stromberg.

As the director of office skills training for the Civil Service Commission, Mrs. Stromberg is responsible for establishing the curriculum for all federal employees in the area of office skills and management.

In addition, she is the federal women's program coordinator for the Civil Service Commission and is involved in national programs pertaining to hiring, recruitment, placement, and promotion activities.

According to Mrs. Stromberg (Business Education, 1958) one of the primary obstacles facing women in the public sector is not only the stereotyped attitudes of managers, but the attitude of women themselves.

"There are still many cases where women say they are not going to try because they feel they can't succeed or they feel managers wouldn't allow them to have a particular job. This kind of attitude is really an escape hatch."

Mrs. Stromberg's training efforts are aimed at improving self-esteem and helping individuals think of themselves "as professionals with important ideas and the ability to make decisions without waiting for someone else to determine what can be done. In other words, we are trying to give them some measure of stability. We are trying to say to them that they are thinking individuals."

She has also seen that the attitudes of men and women regarding their respective roles are largely a product of social conditioning.

"For a long time, society made us very aware of what the female should do and what the male should do. It is hard to overcome all of those internal feelings we have grown up with. It will take several generations for us to overcome some of those attitudes. Yet we need to remember that family life is very important. We should not tell all young women that they must focus only on a life-long career."

Sharon Stromberg prepares to tape a television program

Despite the advancement women seem to have made in employment opportunities, Mrs. Stromberg does not see the progress as very substantial. She stresses that some individuals are misconstruing many of the actions that are being taken in the way of equal employment opportunities. They are saying that women are getting more opportunities and, therefore, pushing white males and minorities out of jobs.

"There really is a very high percentage of women who work because they absolutely have to work. The female who is never married is, of course, responsible for her own income—and this amounts to 23 percent of the women who work. Another 19 percent are widowed, divorced, or separated. That is 42 percent of the female labor force that has to work.

"In addition to that, 25 percent have husbands earning less than $10,000 a year. With two to four children, $10,000 is not going to go very far. It becomes clear that their incomes are not merely a 'supplement.' "

According to Mrs. Stromberg, work in the federal government is not "terribly boring, with everyone regimented into little pigeon holes." On the contrary, she feels that many jobs are stimulating and rewarding. "I must admit that I am in a good position, for my particular job allows me the freedom of creativity."

She adds, "That is not to say there isn't red tape in the government. But there definitely is not as much as most people would believe." ■

Expending and Conserving Energy

This winter's bleak weather conditions will actually mean a boost to energy conservation, says Martin E. Seneca, Jr., acting assistant administrator in the Office of Energy Conservation and Environment.

Seneca, a 1970 MPA graduate who received a law degree from Harvard in 1973, has also served on the National Council on Indian Opportunities (1970-72).

His office, which is administered by the Federal Energy Administration, is responsible for promoting attempts to balance not only environmental concerns, but also energy requirements.

"If we can conserve energy, and conservation is defined as using existing energy resources as efficiently as possible, the demands on new energy supplies and resources will lessen. If we can slow down the demand for energy, it will give us the necessary lead time to develop alternate sources and programs to deal with our problems."

Yet proposed solutions present additional problems.

Seneca explains, "One example is in the difficulty in switching from petroleum fuels and natural gas to coal. Petroleum and natural gas burn cleaner than coal. When we start talking about coal-fired generating capacity, we immediately get into environmental concerns with regard to the Clean Air Act. We are faced with the issue, how do we reconcile the serious concern to breathe clean air with the demands of energy requirements?"

He terms the harsh weather conditions of the 1976-77 winter as "one of the biggest boosts energy conservation has received." According to Seneca, the subzero temperatures served as an "educational activity" in bringing the energy crisis to the forefront of the public's thinking.

"Businesses were shut down because natural gas was shut off. People turned back their thermostats so that everyone would have at least a minimal level of heat. When we have people out of jobs because of a lack of energy resources, all of a sudden everyone understands that we have a problem. One of the greatest difficulties we have had to deal with in energy conservation is getting the public to continue focusing on the fact that we have an energy crisis."

In the future, according to Seneca, we need to concentrate on smaller and lighter automobiles. From the standpoint of public awareness of the energy situation, his office follows automobile sales and notes that, generally, sales across the country are up 12 percent. Large cars, they note, are driven off the lots in steady streams.

"There was a time period when auto sales were off, and a greater number of smaller cars than larger ones were being sold. However, this trend seems to have reversed."

Seneca believes that energy conservation is a major focus because it can begin immediately and give quick returns. "In other words, you can weatherize your home today and begin reaping the benefits tomorrow. Also, when we start talking in terms of additional energy supplies, it could take anywhere from eight to ten years to open up a new coal mine or bring in a new oil field or natural gas line. And if you do these, you are talking about tremendous capital investments.

"When we examine increasing the supply, we are forced to look at considerable lead time and huge investments to bring in that new energy supply."

In the area of industrial use, Seneca says that his main message is simple yet essential—"Either you conserve energy and get involved in a dynamic conservation program within your industry, or you can expect the federal government to step in and mandate your activities." ■

Martin E. Seneca, Jr. talks with BYU graduate students

The Satisfied Consumer-- A Source of Market Power

by Darral G. Clarke

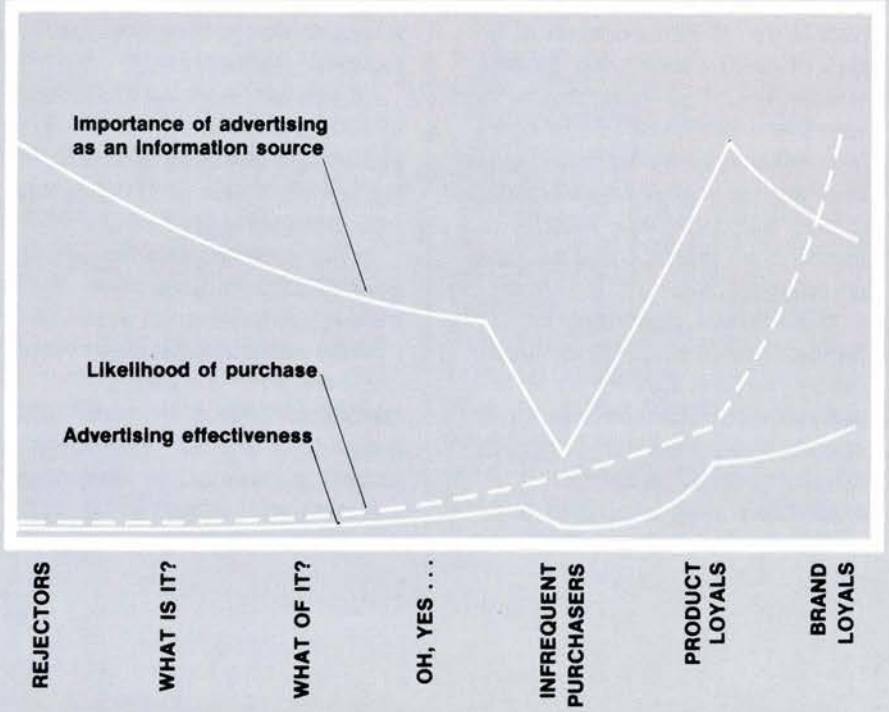
This article is derived from the author's monograph, Cumulative Advertising Effects: Sources and Implications, *to be published by the Marketing Science Institute, Cambridge, Massachusetts.*

American firms believe in the ability of advertising to affect the sales of their products. Advertising is an integral part of the marketing of products ranging from toothpaste to computers, but, considering the ubiquitousness of its use, it is surprising how little is known about the manner in which advertising affects the purchase behavior of individuals. This lack of concrete knowledge is caused, at least in part, by the complexity of the consumer decision-making process in buying even the simplest of products. Because so little is known about advertising's effects on consumer decision making, these effects are often neglected in studies of competition and market structure.

Economists and others have been concerned with the role that advertising allegedly plays in erecting barriers to block the entry of new firms into established markets and in other manifestations of market power in competition. Among the more frequently cited indications of market power are a few large competitors in a market, high profits and advertising expenditures relative to sales volumes, and market share.

Examples of industries in which 1) the market is dominated by relatively few firms, 2) entry is difficult, and 3) advertising is a dominant feature of competition are very easy to find. What is not clear is whether the existence of such conditions is sufficient evidence to name advertising a source of market power in these industries.

FIGURE 1
Advertising Effectiveness and Consumer Market Structure



Market Power at the Breakfast Table

The cereal industry has been cited as an example of market power, and the Federal Trade Commission has claimed that advertising is a major source of that market power. The cereal industry is dominated by six or seven firms, which between them offer over 100 different brands accounting for approximately 98 percent of cereal sales. There is relatively little price competition, and advertising expenditures as a percent of sales are high (14.8 percent between 1954-57). It is easy to see that the classical measures of market power and barriers to entry are present.

If attention is drawn to the individual competing brands, however, the evidence that advertising provides a big advantage to the larger brands is often contradictory. To be more specific, consider the nutritional cereals as a small submarket of the cereal market. Nutritional cereals were introduced in 1956 when Kellogg's began marketing "Special K." In 1961 Quaker Oats introduced "Life" cereal and General Mills countered with "Total." In 1966 these three cereals were the only nutritional cereals of any substantial size, and Special K had attained a 47 percent share of the nutritional cereal market while Total and Life had 30 and 23 percent market shares, respectively. This dominant market share is indicative of a potentially powerful position in the market, and if

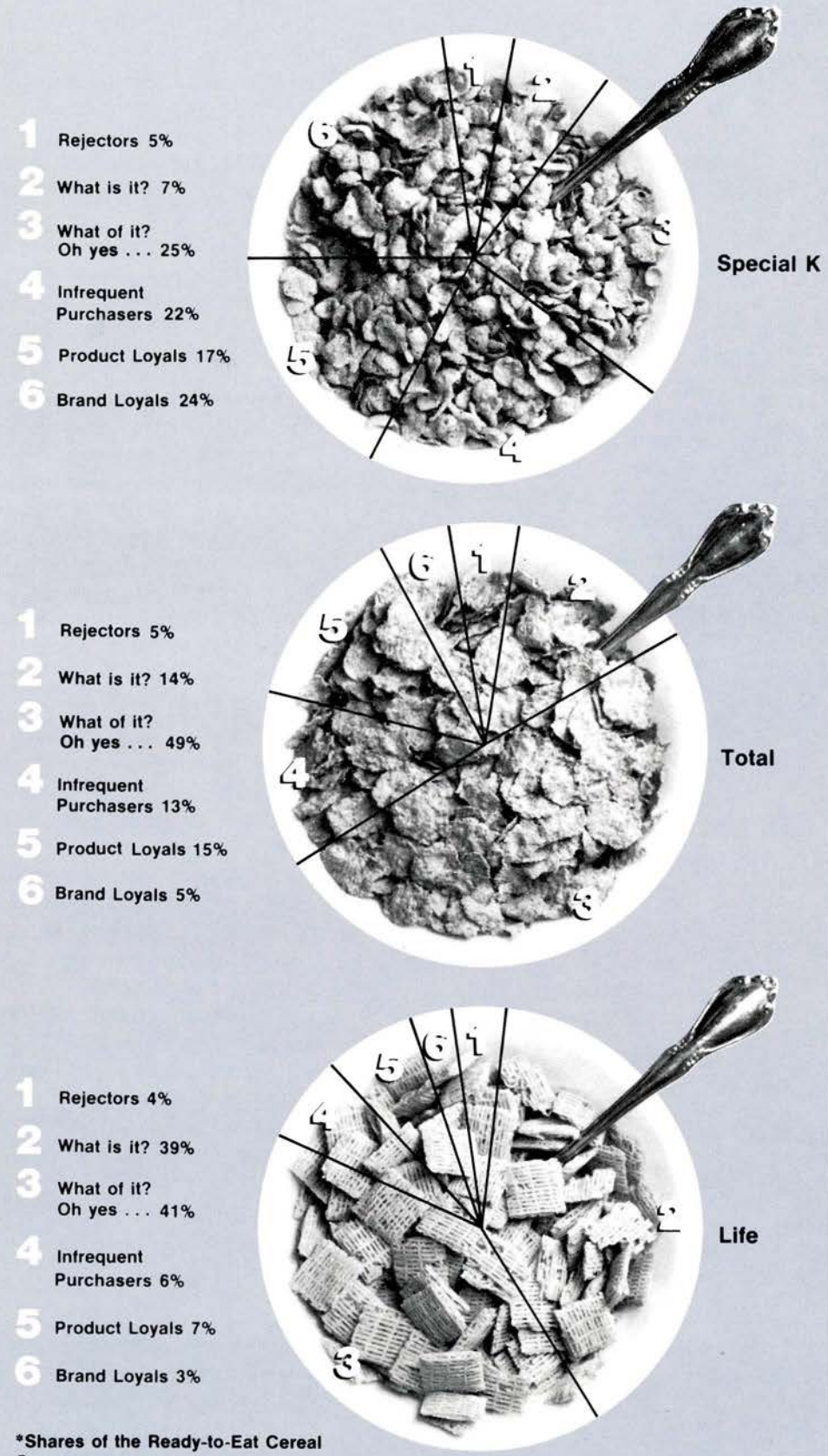
there are advertising advantages in being big, it would seem reasonable that Special K should reap them. Special K's advertising expenditures were 12 percent of its sales in 1966 (called advertising-to-sales ratio—A/S) while Life's and Total's corresponding advertising-to-sales ratios were 8 and 22 percent, respectively. Thus, there is no direct correlation between market share and A/S ratio. The 12 percent of Special K's sales spent for advertising amounted to some 43 percent of nutritional cereal advertising. If there are advantages to being big, then a larger firm should be able to maintain a larger market share by a smaller share of the advertising than could a smaller firm. Dividing the market share by the advertising share for these three firms again does not fulfill expectations: Special K, 1.1; Total, 0.8; and Life, 1.2.

Taking both of these measures together, one must conclude that, if there is any advertising effectiveness difference at all, it is in favor of Life, the smallest brand. However, this isn't the case at all. Total had been spending heavily on advertising to increase its market share, while Life's smaller market share was declining. This example shows the inadequacy of these frequently used measures of market power to demonstrate its existence, even in a case such as this where it obviously exists.

Advertising Response and Market Composition

It is instructive to consider the composition of the nutritional cereal market not from the point of view of the number of brands and the size of the firms but, rather, from the consumer level. Through classifying nutritional cereal consumers according to similar purchasing patterns, we discover "brand loyal" consumers who purchase a particular brand

FIGURE 2
Consumer Market Structure for Nutritional Cereals*



***Shares of the Ready-to-Eat Cereal Consumers**

almost exclusively. "Product loyal" consumers don't prefer a particular brand, but they are nevertheless steady, routine purchasers of the product. Infrequent users have tried a brand but haven't formed habitual usage patterns—either for that brand or for the product in general. Some consumers have tried the brand, found it unsatisfactory, and rejected it. The responsiveness of consumers in these different purchase-behavior classifications to the same advertisement would be very different.

Similarly, potential first-time consumers could be expected to differ in their responsiveness to an advertisement depending on how familiar they already were with the advertising. Classifying the consumers in a specific market according to these "information response and purchase behavior segments" allows an alternate market structure, one that provides a rich vehicle for exploring the effects of advertising and uncovering the sources of market power.

The likelihood of a consumer being influenced by any means to purchase a brand increases steadily from the rejector to the brand loyal segment, as Figure 1 shows. The author's view of the importance of advertising as an information source across the various segments is also displayed in the same figure. The most prominent features of this graphical representation are—

1. The sharp drop in the importance of advertising as an information source at the time of product trial, due to the replacement of the advertising message by personal experience.

2. The high level of importance of advertising in the product loyal and brand loyal segments. In the product loyal case, this results from the absence of differentiating product characteristics upon which to base a preference (otherwise, the consumer would be brand loyal). Advertising is an important information source for brand loyal consumers due to the receptivity of the consumer to supportive reminders of brand preference. The selling job is only to encourage supply replenishment.

If the likelihood of purchase and the importance of advertising as an information source are combined, the result is the "effectiveness of advertising to influence purchase," also displayed in Figure 1. It is important to note that advertising will have its greatest effectiveness in influencing consumers with usage experience to repurchase the product; and advertising effectiveness (or the effectiveness of any other marketing action) will increase as the consumer market composition shifts in favor of the product and brand loyal segments.

Advertising is not the *cause* of market power; rather, increased advertising effectiveness is a *result* of the market power generated by widespread product satisfaction and an effective marketing program as a whole

Advertising effectiveness derives from the large proportion of satisfied consumers in the product and brand loyal segments, rather than directly from market share. An extended advertising campaign for an inferior product would result in an accumulation of consumers rejecting the product, and advertising would progressively become less effective. The not-so-obvious corollary of this obvious statement is that cumulative advertising effectiveness can only accrue to products that satisfy consumers.

The repeat purchase behavior of consumers in the product and brand loyal segments is the result of the entire marketing strategy. To attribute all subsequent purchases of a product to advertising, even though advertising may have been instrumental in motivating the first purchase, is as illogical as stating that an avalanche was caused by a climber who started a loose boulder rolling down a ravine. The avalanche may have been triggered by the climber, but the true cause of the avalanche is the proper combination of hill slope, availability of loose materials, and other topographical characteristics of the area—in addition to the initial impulse of the misdirected stone. Similarly, the repurchase of a product is caused by a satisfactory usage experience, convenient availability, and favorable price and quality comparison with competing products— all in addition to the advertising message which first alerted the consumer to the existence of the product.

A Matter of Taste

Product satisfaction has been seen as a source of market power in general, and in the nutritional cereal market it helps to explain the disarray in the economic indicators. Figure 2 displays the consumer market composition for the nutritional cereals and provides an indication of just how powerful Special K is in this market.

Comparison of the consumer market composition for these three brands (Kellogg, General Mills, and Quaker) gives dramatic evidence of substantial market power. What appeared to be favorable indications of advertising effectiveness for Quaker Life cereal are shown to be extraneous.

After nearly six years of advertising, nearly 40 percent of the cereal consumers are not familiar with the name, and awareness has only increased 6 percent in the last three years. The low ratios observed for Life cereal are probably indicative of an advertising policy that spent so little for advertising that it had little, if any, causal effect on sales. Total's advertising expenditures, on the other hand, have substantially increased the size of the information response segments and have resulted in increased membership in the trial and purchase behavior segments. The high advertising-to-sales ratios, and the low market share-to-advertising share ratios of Special K, indicate the kind of predicted market power that Special K should enjoy. Total has paid dearly to gain market share and yet Special K is still very powerful.

Over 68 percent of the cereal consumers have at least tried Special K, and 48 percent of those consumers who frequently purchased nutritional cereals purchased Special K (Figure 3). Only 16 percent of the frequent nutritional cereal purchasers didn't purchase Special K at least occasionally in addition to the other brands.

Figures 2 & 3 show the dramatic difference between Special K's market structure and that of its competitors. The selling job to be performed by Special K's advertising or other marketing actions is smaller for a larger segment of the market than it is for its competitors. Thus, better shelf position brings higher returns for Special K than it does for its competition; a small price cut makes a bigger impact, and advertising plays to a more favorable audience. But, as has been argued, advertising is not the *cause* of this market power; rather, increased advertising effectiveness is a *result* of the market power generated by widespread product satisfaction and an effective marketing program as a whole.

Does this increased marketing effectiveness provide a source of market power or a barrier to entry? Yes, but the barrier to entry is caused by consumer product satisfaction (or dissatisfaction), not by advertising or any other single marketing action. Consumer product satisfaction is surely the most desirable source of market power in an industry and provides the most reasonable deterrent to "brand proliferation."

It is interesting to note that even the great market power exhibited by Special K was not enough to permanently discourage entry into the nutritional cereal market. Fewer "me too" nutritional cereals resulted than for any other product category. The recently introduced "natural cereals" have proven the most effective competitors for the nutritional cereals. The natural cereals are not "me too" Special K imitators, but, instead, they offer a substantially new appeal. They have been launched, by and large, by massive marketing efforts, and, interestingly, some of them are not products of the old-line cereal manufacturers.

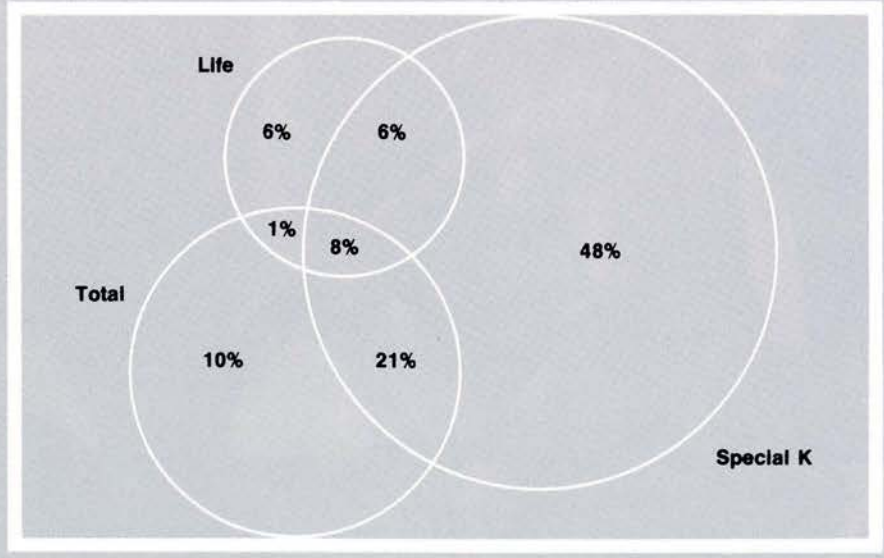
The existence of a few large competitors and massive advertising expenditures are not sufficient evidence in themselves that undesirable market power is operative in an industry. In the case of nutritional cereals, it was shown that advertising and marketing effectiveness did reach levels that competitors, new and old, were unlikely to attain. This does represent a barrier to the entry of new brands and a source of market power, but this market power is the result of product satisfaction rather than a self-generating source of market power.

Market power and barriers to entry that can be shown to be due to restraint of fair trade practices should be considered candidates for governmental action. However, market power and barriers to entry resulting from market satisfaction should not be treated as aberrant economic behavior requiring governmental intervention. They are the embodiment of the free market ideal. ■

[1]Data for this discussion are derived from the ICH Case, "Quaker Oats Co.,—Life Cereal," ICH Number 9-5-57. © The President and Fellows of Harvard College, 1967.

FIGURE 3

Purchase Behavior of Nutritional Cereal Consumers



Games People Design

by Lee T. Perry

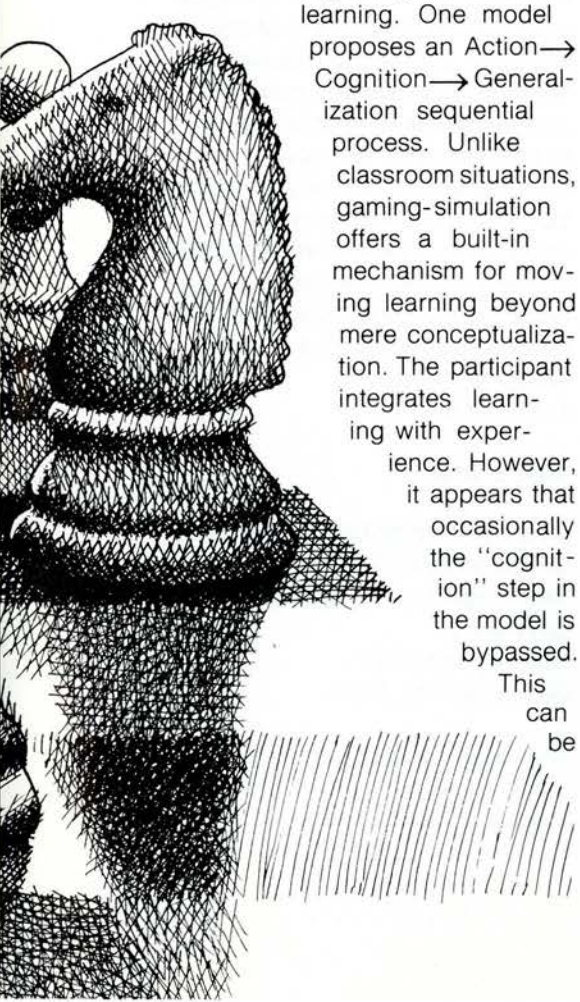
During the past several years gaming-simulation exercises have been "playing" an increasingly important role in training managers and as adjunctive teaching aids in universities. They have become an integral part of the consultant's bag of tricks. Games and assorted gimmicks, from tinker toys to sophisticated role playing, are also becoming increasingly popular in both the teacher-student and trainer-trainee interface. Yet, in anticipation of extended use of gaming-simulation, two groups of questions of profound importance must be addressed.

Question of Learning

Are games a potential source of learning? Do people actually learn from games? If so, how do they learn? And what can be done to increase the learning potential of games?

Some researchers have considered games a "time out" or interruption of reality. There are some definite advantages to this brief intermission, the greatest being that long-term effects do not exist in the interim gaming-simulation environment. This frees the participant from direct consequences, thus enabling him to experiment with different response patterns and allowing him to test a repertoire of alternative behaviors. Gaming-simulation offers the participant the opportunity to be flexible, to depart from the safe and the routine.

Others have focused on the "activity" component of gaming-simulation learning. One model proposes an Action→Cognition→Generalization sequential process. Unlike classroom situations, gaming-simulation offers a built-in mechanism for moving learning beyond mere conceptualization. The participant integrates learning with experience. However, it appears that occasionally the "cognition" step in the model is bypassed. This can be avoided only through intensive and purposeful debriefing, which encourages participants to share experiences and insights.



One noted author has talked about the advantages of "doing things for merriment" in education. Gaming-simulation exercises are fun. Like the toothpaste commercial in which a concerned mother says, "If the toothpaste tastes better, my kids are bound to brush more often," so it is with learning. If the learning tastes better, trainees and students are bound to learn *more* and *often.*

Science or Art?

What direction should gaming-simulation take? Should efforts be concentrated on reproducing reality? Or should gaming-simulation be less of a science and more of an art form?

The creation of artificial environments raises intense issues. There are obvious advantages to simulating reality. Nevertheless, we can never truly simulate reality by creating an artificial environment unless we abandon the advantages of that environment. If we could actually reproduce reality through simulation technology, we would be forced to include long-term consequences, because these are an essential part of real environments; and this would negate the principle advantage of the simulation.

The use of gaming-simulation as an educational tool requires, or at least encourages, that its design be an artistic enterprise. We can compare an artistically designed game to an entertaining movie. We have seen a movement to bring realism to motion pictures—to tell it like it is. This is fine if the principle purpose of film is to transmit real-world awareness to its audience. Nevertheless, this outlook often fails to produce entertaining movies. An entertaining movie's primary purpose is not to depict reality, but rather to give us the opportunity to fantasize just a little. It allows individuals the chance to assume new roles (roles they may really want) without the constraints of real-world consequences. In such an artificial environment people become unusually open and spontaneous. They perceive themselves differently and reflect on their own behavior as well as others'. An entertaining movie or game can do all this because it creates a new environment where norms become an expression of the individual rather than a prescription of society.

The artistically designed game is not a haphazard scenario of unrelated events. It is, rather, an allegory, a parable that can be applied to reality. It often focuses on specific aspects of reality—it has that flexibility. It is only relevant, however, if scenes played by the actors are ultimately analyzed by the members of the cast themselves. Therefore, an artistically designed game still demands a designer/director who understands social behavior, much like an artist needs to understand color.

Gaming-simulation does offer new advantages that more conventional training-teaching strategies do not. Both the *science* and the *art* of gaming should be further developed. Through the *science* of gaming-simulation, meaningful insights into reality are gained in our attempts to recreate it. Nevertheless, the art form of gaming should not be discounted as merely a "soft science." Gaming-simulation demands the boon of creative endeavor. In the imaginative design of games lies untapped potential for the development of future learning vehicles. ■

EXCHANGE: LETTERS

Fans

Your accomplished objective—the blending of ethics and technical competence—is very refreshing in a professional publication.
Bertrand E. Jackson
San Diego, California

A very "classy" magazine.
Wells Grover
Laie, Hawaii

Congratulations! I was very impressed with the first issue of *Exchange.* Not only was the content excellent, but the format and design were also.

I recall that while I was at BYU as a faculty member, there were many discussions concerning the need for a publication from the College of Business. I am confident that *Exchange* will do much to enhance the image of both the college and BYU.
S. ElVon Warner
Cedar Falls, Iowa

Recently I attended a meeting of a prestigious businessmen's group representing our firm. The topic discussed focused on specific items of proposed legislation. Unaided by a broader vision, the dialog became a victim of each party's self-interest. My former law school classmates would have found the discussion a classic example of the thought processes of narrow-minded businessmen. I wish each of the participants would seriously read *Exchange.*

As members of the business community, we have a duty to forthrightly establish morally and intellectually defensible standards of business practice and to vigorously implement them. The BYU College of Business and Graduate School of Management are uniquely endowed to carry such a banner and *Exchange* is an excellent medium.
Lavar Goulding
Yuba City, California

Successful blend

I feel it is entirely proper to credit those individuals, such as Jan Erteszek, who have successfully blended Christian ideals and business principles. Perhaps most significant of all is the symbol *Exchange* for the college and graduate school. It is readily obvious that Brigham Young University is becoming one of the outstanding institutions in management.
Bruce B. Bingham
Waunakee, Wisconsin

Equal time, please

I realize that the majority of readers of the publication may be business oriented, but the Dean's Report states that support for the "dual focus" approach of the Graduate School of Management has come from both public and private sectors. I looked (in vain) for articles directly related to public sector concerns. I could find only articles that referred to government as the entity that imposes itself upon private enterprise. How about a little equal time for the public sector?
Susan Wakefield
Salt Lake City, Utah

An unintentional oversight. We've tried to do better this issue. See article on page 29 as well as Books (p. 22), Taking Inventory (p. 32), and Alumni/Alumnae (p.40).

Parallel pyramids

"Tear Down the Pyramids" was excellent. I have too often seen great bitterness created within a professional staff when salary increases and promotions go hand-in-hand with increases in managerial responsibilities. I see little hope of the managerial pyramid being abolished. However, a parallel pyramid for professional staff could then be in order that would not be based on supervisory position.
Marlyn R. Lewis
Salem, Oregon

Awareness lag

I heartily agree with Warner Woodworth that "today's logic will be . . . misleading for grappling with the realities of tomorrow." Indeed, he has pinpointed one of the major problems that is responsible for the poor image of business and is a primary cause of the cleavage between business and government—that is that lag in awareness on the part of business leaders of the rational expectations of its social environment. Certainly this lag could be partially avoided by the adequate reading habits of business leaders on one hand and citizens on the other.
Weldon J. Taylor
Provo, Utah

Who's who?

Why not a short biographical note on the writers? As I read their articles I kept wondering who these guys are.
Ross C. Blackham
Salt Lake City, Utah

See author biographies on inside back cover.

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