Dividend

The Magazine of the Graduate School of Business Administration • University of Michigan • Spring 1973

Who is the Man With Many Hats?

CAN YOU IDENTIFY THESE ENTREPRENEURS?

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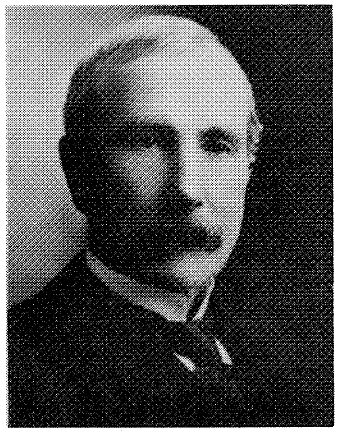

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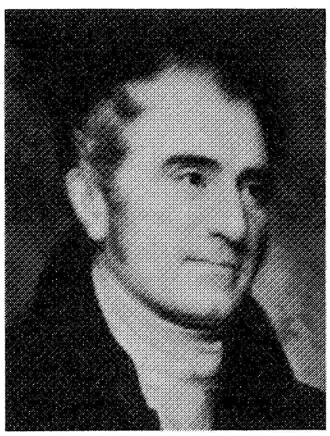

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With the following clues, identification should be easy:

a) an oil tycoon who liked to golf and hand out shiny dimes.
b) the founder of a gun-powder-turned-chemical empire.
c) a tire maker who enjoyed campouts with the auto maker.
d) the man who gave us the light bulb.
e) an auto maker with a passion for square dancing.
f) an auto executive who wrote a best seller.
g) a steel magnate who looked like General Grant and wore size two shoes.
h) a financier who advised every president from Wilson to Johnson.
i) an auto manufacturer who built the world's tallest building in 1930.
j) an inventor whose life was portrayed on film by Don Ameche.

(Dividend is indebted to David L. Lewis, professor of business history, for this quiz. Answers on back cover.)

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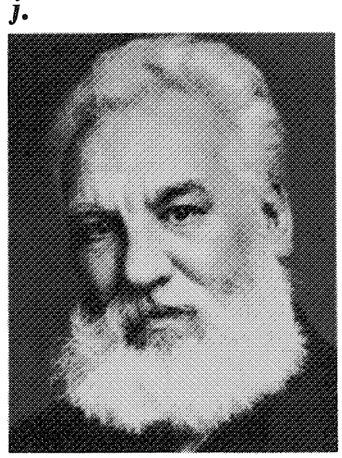

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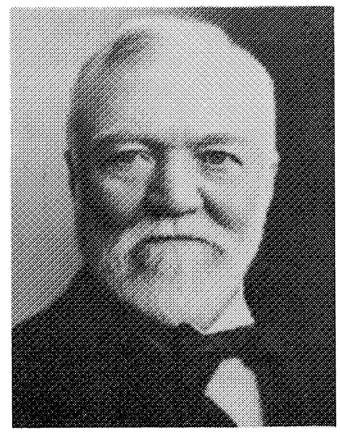

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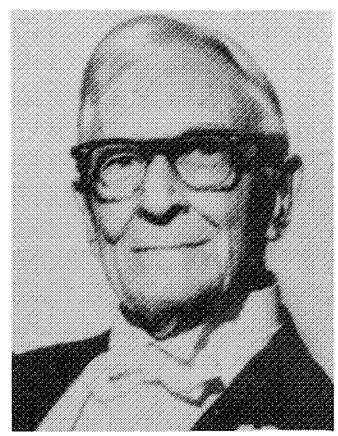

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Dividend

Volume IV, No. 3 Spring, 1973

About the Cover
The cover symbolizes the many hats a small businessman must wear if he is to be successful. The photograph is by Stuart Abbey, as are the pictures on pages 11, 13, 15, 20 and 22.

Editor: Pringle Smith
Printed by the University of Michigan Printing Services

From the Dean:

On the Education of Future Managers and Entrepreneurs

The University of Michigan Graduate School of Business Administration is engaged in preparing young men and women for productive careers in professional management of all types of organizations.

At the same time, the School has a long tradition of emphasizing the special role of "the entrepreneur" in our society. The entrepreneur is the individual who has the vision to see clearly new opportunities for rendering service, the confidence to initiate and undertake a new business venture, the willingness to risk his wealth and reputation on its chance of success, and the ability to make sound decisions in the management of the enterprise.

The "entrepreneurial function," whether performed by one individual or by many individuals working as a team, is critical to human welfare. The fact that the United States produces about 40% of the world's goods and services with only 6% of the world's population and 7% of the world's land area is significant. This performance is not to be explained in terms of the other so-called "factors of production."

But how does a school of management "teach" students to be entrepreneurs? If these "qualities" cannot be taught, how can they be encouraged, stimulated, and nourished?

Traditionally, our School has offered students a course called Economics of Enterprise which emphasizes the importance of the entrepreneurial function. In recent years, the School has offered a course on great American entrepreneurs. Two additional courses are now being offered which are designed especially to stimulate student interest in becoming entrepreneurs. In a broader sense, the entire faculty is engaged in encouraging students to be active, competent doers in the most constructive sense of the term.

Both our tradition and our current efforts make our School somewhat unique and certainly a more interesting place to prepare for a creative career.

Dean Floyd A. Bond

Who Is the Man With Many Hats?

By Pringle Smith
Editor, *Dividend*

Who is that man wearing many hats? See him working 15 hours a day? See him risking his life savings on his business? See him not taking vacations? Why is he doing what he's doing? Does he like it? Why?

Dividend's questionnaire to 38 alumni-entrepreneurs brought answers to some of these questions and others. What is your definition of a small business, we asked? What is the most important quality for a small businessman to have? What are the hazards in the way of success? The most difficult decision you ever had to make? Why did you choose to go into small business? What advice would you give someone thinking of going into business for himself?

Twenty-six small businessmen took the time and trouble to fill out the questionnaire, giving us a 68 percent return—an almost unheard of response and one for which we are extremely grateful. Of the 26, one turned out to be a big businessman and thus was not included in our results, and another questionnaire unfortunately came in too late to be included. Of the remaining 24, 10 were MBA graduates, and 14 had their BBA. Their class years covered four decades: four graduated in the 1940's, eleven in the 50's, eight in the 60's, and one in the 70's. Their businesses were varied. Four were in wholesaling, four in manufacturing, eight in retailing, two in real estate development, three in food

Ten Qualities A Small Businessman Needs (As Identified by Our Respondents)

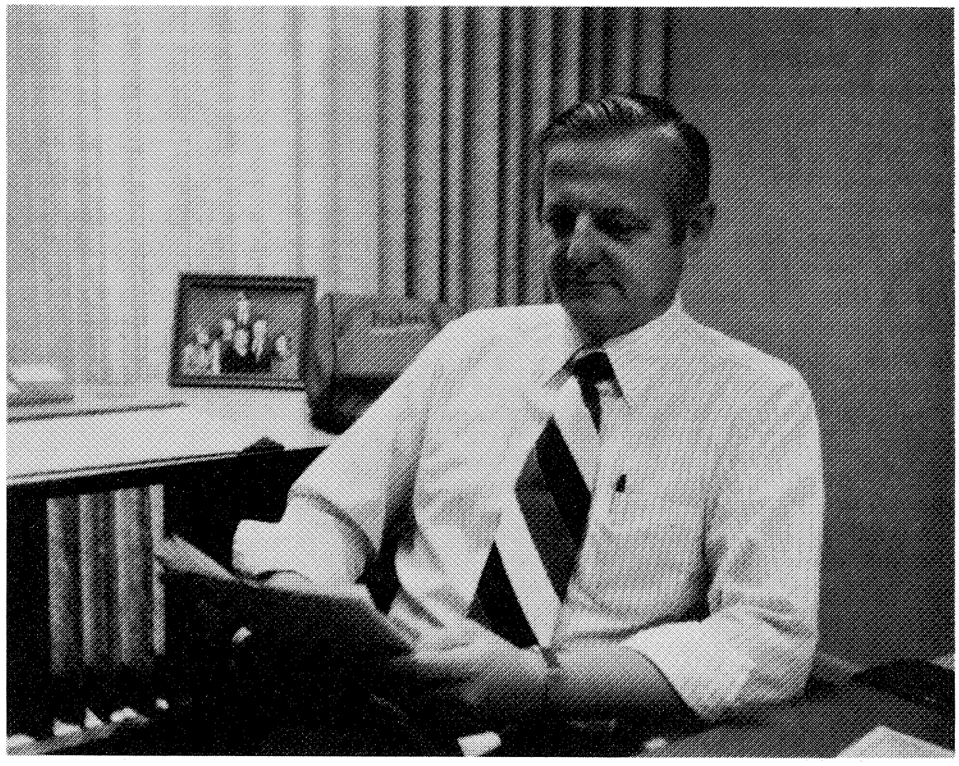
1. **Determination**
"The small businessman has to enjoy handling a variety of tasks and responsibilities, but in the final analysis, he must have the determination to keep going, to keep seeking solutions to the very difficult problems which will come up."
2. **Patience**
"You must be somewhat patient for the business to grow. One must not be discouraged easily by early failures or disappointments."
3. **Flexibility**
"Small business does not have the resources to maintain an inflexible attitude to customer needs, market conditions, product development, industry trends and employees."
4. **Confidence, Confidence, Confidence**
5. **Uniqueness—Creativity**
"The small businessman develops and grows by recognizing an unserviced need, being knowledgeable and understanding in servicing that need, and remaining in constant contact with the methods of satisfying the market for that need. He must be unique in the way he performs; his ideas, his personal attention to his clients, his ability to fulfill his promises."
6. **Energy—Drive**
"He must have the ability to absorb the 'buck,' as 'buck passing' stops with the owner or manager of a small business. He must have the drive to work regularly without many days or weeks off during the year."
7. **People Power**
"To have people work for you instead of against you."
8. **Knowledge**
"Expertise in the specific field of his or her business (i.e. merchandising for retailing, or production engineering for small manufacturing.)"
9. **A Willingness to Accept Risk**
"This willingness must include the risk of losing the business itself to develop a product, a market or an acquisition."
10. **The Ability to See Ahead**
"To plan ahead, to stay ahead of competition, not to be satisfied with things as they are, to adapt to changes."

products of one kind or another, one in executive placement, one in the advertising business, and one in the printing business. Of the 24, eleven started their own businesses, eleven did not, and two answered yes AND no, meaning they took over an existing business and turned it around.

What is a Small Business Anyway?

There are as many definitions of small business, apparently, as there are small businessmen. But basically the definitions divide into two categories: 1) definition by sales volume and/or number of employees or 2) definition by what the manager does.

In the first category, our respondents varied enormously on what the dividing line of volume should be between large/small business. One entrepreneur said a business is "small" if it has less than 100 employees and $250,000 in sales. Another said "small" was any business with under $50 million in gross annual sales. Other answers fell at many points between these two extremes, ranging through break-off points of $25 million, $5 million, $3 million in sales and 1,000, 200, 50 employees. Why such large discrepancies? The owner of a sales and marketing organization provides an answer. He says small business should be defined in relationship to the generally accepted size of the industry most closely allied to the business. For instance, an automobile agency doing $2 million annual sales would be small, but a retail nursery operation doing $2 million annual sales would be large. Herbert O. Barten, BBA '49, president of the Continental Machine Company in Elk Grove, Illinois, suggests that a good definition would require a formula combining both number of employees and sales. "Any company having over 50 employees," he writes, "would not in my opinion be considered small business, nor would a 4-man operation producing $10 million in sales. Perhaps a company having less than 50 employees, with approximately $50,000 or less sales per year per employee, could be considered small business." Dick Huff, MBA '55, retired head of a water conditioning and bottled water company in Florida, has a different definition. According to him, a small business is one that cannot take advantage of the maximum discounts in insurance group rates, ordering supplies, etc. "When a company can command the best terms, highest discounts, etc. it is no longer a small business," he says.



Herbert O. Barten, BBA '49, president of the Continental Machine Company.

Neither the number of employees nor the sales volume should be the determining factor, says a partner in a toy and housewares manufacturing company. What makes a small business, he says, is when the key management people own the controlling interest in the company, and it is this which provides the unique involvement which characterizes a small enterprise. Stephen L. Jenkins, MBA '66, executive vice president of a retail drug store in Ohio, says a small business is "one in which the owner or manager is the executive head, the personnel director, the advertising man, the janitor, the trouble shooter and the bookkeeper, etc.," adding, "it isn't very sophisticated, but it usually is true." And Howard C. Webber, Jr., MBA '58, president of Cohber Press, Inc. of Rochester, N.Y. agrees. According to him, a small business is one in which the owner or owners are involved in making all the major decisions.

The Tough Decisions

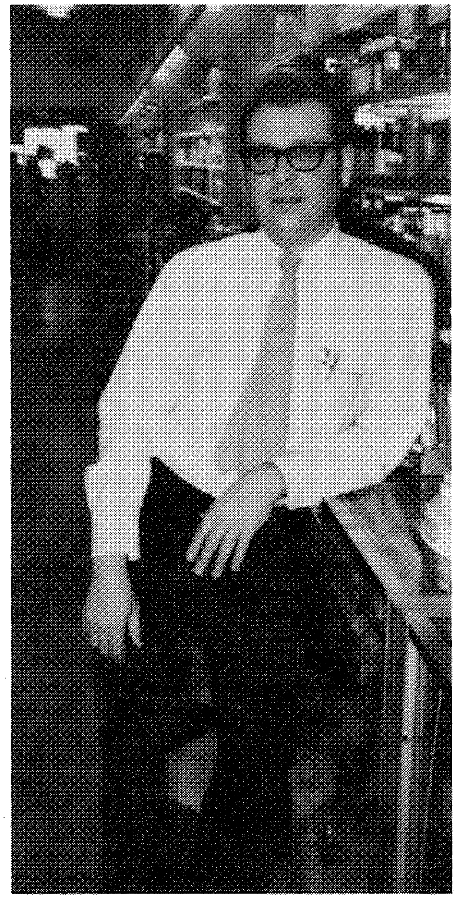
If you're involved in making all the major decisions, which are the most difficult? Some of our respondents said the most difficult decision they ever made was the decision to go into business itself—to leave the security of a major corporation to join or start a small business.

Another very difficult area involved people—both hiring them (should one spend big money on highly qualified personnel or try to train your own?) and firing, particularly because of the personal relationships that small business develops. "The most difficult thing to do," wrote one man, "is to fire someone who may be a friend, but who is incompetent." And a man who took over an existing business wrote that a major and very difficult problem is personnel. "People do not like change," he wrote, "and one of the most disruptive elements in a new ownership situation is divided loyalties and/or employees functioning in the business along the guidelines established by the old ownership. Each employee should be given the opportunity to know your business plan and how you expect him to fit into the overall operation. He should know exactly what is expected of him, and if he performs according to your intentions, excellent. If not, then recognize that the problems will not diminish in the future and must be dealt with immediately. The new owner has far too many demands on his time not to deal with a problem head on."

Decisions involving growth and expansion were mentioned as the most difficult by about a third of our respondents. Should you sell when approached by a larger (potential competitor) buyer? Should you expand to a new building and buy new equipment, borrowing large amounts to do so? How about committing the energies and resources of your company to a new product line? Or borrowing money to launch a new product? Should you purchase a somewhat smaller competitive business on favorable terms and conditions, or not purchase it in order to commit the same resources to alternate opportunities for internal growth? "Remember," warns Jerry Douma, BBA '50, owner of Jerald Douma and Associates Executive Search and Placement firm, "the money you spend is your own."

The problems of growth involve a lot more than money. One entrepreneur said his most difficult decision was to turn down a very lucrative offer by a large company that wanted to acquire his business. The second most difficult was his decision to double the size of his original plant and move away from the original site, which meant taking on a large mortgage, moving away from large customers, and possibly losing many employees. Another businessman said his most difficult decision was to cut *back* on growth plans, absorbing large losses on money already expended in order to reorganize and make the best use of limited capital.

"Besides the problem of enough money to sustain operation during



Steven L. Jenkins, MBA '66, executive vice-president, Henney & Cooper Inc.

the early years," said one entrepreneur who added another retail outlet to his business recently, "you need to analyze the proper merchandise mix to satisfy customers, as well as find enough time to supervise the initial operations of a new outlet and still properly manage your existing business." Another businessman who eventually decided to sell discussed the questions he weighed before taking action: "Whether to spend more hard years pushing to be bigger and make more money, or try and remain static at the present level where I was making all I wanted and had some time to enjoy it, or sell out." He decided to sell out because, he explains, "It's hard to remain static—your competition is just waiting for you to come to a standstill. So I thought it would be best either to keep my nose to the former grindstone or to quit. Running a business," he continues, "isn't as much fun as before and the trend seems to be getting worse—such things as (not in order of importance) higher social security costs and workman's compensation rates; higher unemployment rates (my company had a zero experience rate and still the rates went up); more reports to local, state and federal government; employees becoming more unreasonable; the public becoming more unreasonable; harder to compete with government agencies and large companies for the better type employees, etc."

Hazards and Pitfalls

Hazards that stand between the small entrepreneur and success are many. Not least of these is his own state of mind, writes Lanny S. Altshuler, MBA '72, owner of Al's Pottery of Florida, Inc., adding "since you control so many areas, you must bear the brunt of many problems in these areas." Many dangers lurk for the small businessman who lacks sophistication in any of the basics of business. This can lead to lack of defined goals and organization planning, undercapitalization combined with a lack of real determination, inadequate capital structure and/or accessibility to additional balanced financing, poor selection of key operating personnel, improper planning and training for successors in key management areas, resistance to change as the years of successful operation increase. And the small businessman can ill afford mistakes. The president of a wholesaling business comments: "One cannot succeed in today's small business world without having a well thought out plan of operation. Large business can survive by reliance on other profitable operations or even past profits. The operating expenses of a small business do not allow such luxury. Without a defined and understood operational plan the small businessman puts himself in the position of not delegating responsibility and authority. He therefore spends a disproportionate amount of his valuable time on minor matters and details better left to others."

Many of the hazards of small

business, as well as many of the rewards, lie in its smallness. "A small business faces all the problems of a big business," writes Randolph Hamner, MBA '64, partner in Centsable Products of Palatine, Illinois. "However, the small business, because of its financial structure, has limited momentum. Strikes, supplier increases, loss of key contracts, all have a magnified effect." And because the business is often started and managed by one man, it depends on that man. Several entrepreneurs wrote that a primary hazard they faced was the dependence of the life of their business on their life and pointed out that many small businesses die with the owner.

Limited resources present another danger. The small businessman may face competition that can spend enormous amounts even if it means an initial loss. *Quick* changes in business style can be ruinous, points out Stanley Herman, BBA '54, owner of Harry's Clothing, Inc. of Toledo, Ohio. He explains that the change could be a new revolutionary product, or the opening of new competition with better facilities—but that if the change is sudden, the small businessman can lose all his customers before he can compensate for it.

Leonard Dreyfus, BBA '51, founder of Leonard Dreyfus Advertising.

R. J. Mahoney, BBA '58, vice-president and co-founder, Stirling Everest Corp.

Limited resources also make it more difficult for the small businessman to cope with increasing governmental red tape. Says James L. Brown, MBA '52, president of the Sinclair Manufacturing Company in Toledo, Ohio, "The small business often does not have the staff or the resources to meet physical and reporting requirements of the government—FTC, FDA, USDA, OFHA, EPA, etc." Nobody knows the exact extent of federal forms. But the *Wall Street Journal* has reported that it costs Uncle Sam about $18 billion a year to "print, shuffle, and store" forms for business and that it costs businessmen another $18 billion to get the forms filled out.

A Word to the Wise

What advice would the entrepreneurs give to people thinking of going into business for themselves? An MBA graduate 10 years out of school who recently left a large corporation to join a small business gives practical advice: "Analyze your motivations carefully. Small business requires a price to be paid—in terms of commitment, in terms of effort, in terms of short term sacrifice for longer term gain. A current or passing dissatisfaction with a big business situation, a boss, an assignment, etc., will be insufficient motivation to carry an individual through." He suggests reviewing your plans and background with an individual you respect before making the move.

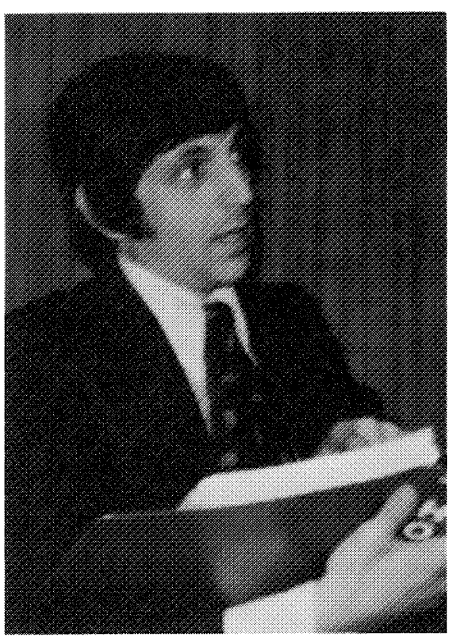
One president of a company whose business has doubled in the past year said, "If a person sought advice as to whether or not to go into business, I would advise him not to do it; he already lacks confidence in his ability or he would not be seeking that type of advice." But not only confidence is required. Many respondents stressed the importance of thorough knowledge of what you are doing combined with willingness to work long hours. David Wax, BBA '61, president of D.S.M. Food Products, Inc. in Detroit, suggests one way to get that knowledge is to work for someone else in the same business first and make your mistakes on his time and money. Then, when you are seasoned, consider doing it on your own.

Starting Your Own

For those enterprising souls who want to start their own business, the entrepreneurs (half of whom *did* start their own) had a good deal of advice. Robert J. Mahoney, BBA '58, vice-president and co-founder of Stirling Everest Corporation of

St. Louis, Missouri, said, "Choose, with extreme care, your active business associates. *Negatively* examine each part of the business idea—do not oversell yourself on the value of your business contribution or idea. Develop a solid banking/financial connection to insure not only adequate beginning capital structure but also provision for future capitalization should the need develop. Seek agreement and understanding by one's family that a new business venture will require long hours and sacrifices of some "fringes"—i.e. paid vacations, bonus plans, incentive programs, cost of living increases, company paid liberal insurance and medical benefits, etc."

The owner of a 10-year-old business which he started put the problems right on the line. "Deciding," he says, "1) what kind of business? 2) where to locate? 3) rent, buy or build? 4) how to raise capital? 5) how much capital is needed? 6) how much to initially invest in each phase of the new business (e.g. inventory, furniture and other assets, advertising, to buy or lease major equipment items, etc.) 7) to incorporate or not? 8) what accounting method to use, how often to file statements, whether to retain a CPA and if so, how often to use him? 9) your initial basic business philosophy—are you attempting the best services available at high prices, or will you cater to providing the basic necessities at the lowest prices or somewhere in between?" He says problems in running the business (as opposed to starting it) will be minor if you've started off right and are right about the basics. But, he adds, "If your problems are *basic* (like how to get any sales at all), you're in big trouble and unless you're positive your business is really performing a needed function, it may be best to stop immediately. In a retail business, I've always felt that if you're not making money and lots of sales by the end of the first month, it's time right then for that agonizing reappraisal."



M. J. Fivenson, MBA '66, president of Fivenson Hotel Supply, Inc.

Money, Money, Money

Financial connections are critical in starting a new business or expanding an old one, and our respondents pointed out that the time to arrange that connection is before, not after, the purchase or start up of your business. "You have to be willing to starve until you get the business going," says Franklin C. Basler, BBA '40, founder of the Franklin-Lee Company which specializes in the sale of school and institutional furniture and equipment. And Leonard Dreyfus, BBA '51, who started his own advertising agency, points out that income is a guess when you start a business but that you have a past to go by if you take over a going business. "Watch out for the second year," succinctly states one BBA graduate who took an existing business and changed its direction.

The Time Problem

Both running and starting a business take time, and when you're doing both at once, the squeeze can be terrific. "The organization has to be started from the beginning," says Charles Beattie, BBA '56, who founded ENVAR, a California real estate development company. "Policies have to be set instead of altered. The time spent in organizing policies, establishing procedures and hiring personnel take time away from the operation of the business." Taking over an existing business can have its complications too. Said one owner who acquired a company that had been in existence more than 100 years, "We had to maintain the continuity of business, respecting the past practices (some accounts had been buying from the company for over 70 years and many of our manufacturing connections were in existence for over 50 years) but updating systems, operations, employees and accounts to our business plans."

Randolph Hamner, MBA '64, vice-president of operations, Centsable Products.

Not a Cog

With all the pitfalls, the hard work and worry, the risk, why bother with entrepreneurship? Because entrepreneurs are individualists, one and all. "A taste of the arbitrariness of large companies convinced me I couldn't be subservient and function," said one. Another disliked the

Continued on page 24

Industrial Development and Entrepreneurship Is a Focus for Research in the School's DOR

The Division of Research is sponsoring a continuing program to investigate the small business climate in Michigan and to promote new business formation.

Industrial development and entrepreneurship has been a primary interest of the Division of Research of the Graduate School of Business Administration over the past 10 years. Under the directorship of Alfred W. Swinyard, currently chairman of the Faculty Standing Committee on Research and Associate Dean of the School, the Division published several studies of small business management, including *Cases in Small Business* by William M. Hoad (1968), *Management Factors Contributing to the Success or Failure of New Small Manufacturers* by William M. Hoad and Peter Rosko (1964), and *Uses of Accounting for Small Business* by Stephen A. Zeff (1962).

In addition to the publications in small business listed above, the Division of Research, in cooperation with the Industrial Development Division of the Institute of Science and Technology, has sponsored a continuing program to investigate the current small business climate in Michigan and to promote new business formation.

Under the directorship of Dr. Paul Root, two specific projects to investigate the status of small business in Michigan have been developed: a research project on entrepreneurship, which investigates the capital requirements and managerial skills necessary to operate a successful technological enterprise; and a research project on minority business development, which investigates both the training gap and the socio-economic problems which restrict the development of black business in Michigan.

Technical Entrepreneurship

An example of research in technical entrepreneurship is a study initiated by Dr. Swinyard in 1968 to examine the importance of the marketing function in launching a successful new technology-based business enterprise. The project was the topic of a doctoral dissertation by Lawrence M. Lamont, former research fellow in the School, and the completed study was issued as an IST publication, *Technology Transfer, Innovation, and Marketing in Science-Oriented Spin-off Firms* (Ann Arbor, 1971). The study identified two types of new technology-based enterprises: those which are product oriented and committed to growth and those oriented to research and development, which either reject growth or lack the managerial talent required for growth.

Later studies by Lamont revealed specialized business activity in Michigan which had promise of generating a burgeoning community of technically oriented small firms serving the space industry, the computer industry, visual optics, and precision engineering. These companies were high-growth firms with the potential to contribute substantially to the state's annual gross product. It was apparent that cultivation of a financial market serving technical entrepreneurships and the support of their managerial effort would stimulate additional business formation and develop a potential revenue base for the less developed areas outside Detroit.

Identification of the financial needs of technology-oriented businesses, particularly for venture capital, is a matter of considerable importance in the study of regional economic development. In a preliminary review of capital requirements for such firms, William Welch, research fellow, described the research required to determine what these firms' financial needs are, when and why they occur, and who supplies the capital to meet them. (William Welch, "Financial Characteristics of New Technology-Based Firms," Working Paper No. 59, Bureau of Business Research, Graduate School of Business Administration, 1972.) An earlier publication of the School that took a regional approach to the financial needs of other small new firms as well as technology-based firms was a 1969 study by Sidney L. Jones, "General Economic Environment for Small Business in Michigan," (in *Legislating for Economic Expansion,* Gies, Apilado, Brophy, and Jones, Bureau of Business Research, 1969).

The management and sales forecasting techniques applied by technical entrepreneurs were studied by Arthur J. Riggs and reported in Working Paper No. 49, "Forecasting and the Management of Michigan Spin-Off-Firms," issued by the Division in September, 1971, and published in the November 1972 issue of *Industrial Research.* Additional research on the decision making of technical entrepreneurs is under way, using a format which has been successful in studying the decision-making patterns of minority entrepreneurs. The results will be published initially as a working paper, "Comparing the Business Decision Making of Technical and Minority Entrepreneurs," by Patricia L. Braden.

Minority Economic Development

The participation of the Division of Research in a program on Industrial Development and Entrepreneurship has led to an investigation of the dynamics of areas in obvious need of economic assistance—an obvious instance being the black community in Michigan. Though policies at the state level have helped ease the burdens of minority unemployment, the problem of finding productive activity for large numbers of idle workers is as yet unresolved. By creating opportunities for qualified individuals who are currently employed in corporate staff or middle management positions in larger firms and shifting these individuals upward on the job scale, entrepreneurship generates a demand pull for minority employees in lower positions to fill the vacated jobs. Thus avenues are created to accommodate those who are currently unemployed, and the underemployment of skilled managerial talent is avoided.

The investigation of the current climate of black business in Michigan has resulted in several publications, including the first state-wide directory of black businesses—*The Directory of Black Businesses in Michigan,* compiled by Patricia L. Braden and Esau Jackson and published jointly by the Bureau of Business Research and the Industrial Development Division of the Institute of Science and Technology in 1971. While the *Directory* has many diverse uses, the Division has used it to develop a sample of minority businessmen who were surveyed to determine their preparation for business management, their current operating problems, and their use of information sources to solve those problems. The results of the study were reported in a Division working paper ("The Sources and Uses of Information in Minority Business Enterprise," by Patricia L. Braden, Working Paper No. 55, 1972), and were delivered by Ms. Braden in an address before the Association for University Business and Economic Research Fall Conference in October, 1971.

In addition to empirical research, a status report on the problems and prospects of the black community was prepared by Esau Jackson and Stephanie A. King in an effort to increase general understanding of the difficulties faced by the black entrepreneur ("Black Business: A Review of Problems and Prospects," by Esau Jackson and Stephanie A. King, Working Paper No. 58, 1972). As a continuation of this effort the Division earlier this year issued *State of the Black Economy,* a collection of speeches delivered by various authorities and minority leaders at a symposium on this subject in Chicago in April 1972, which was held under the auspices of the Chicago Economic Development Corporation. In preparation at the Division is a book of *Readings on Black Economic Development,* edited by William L. Cash, Jr., and Esau Jackson. The readings have been compiled from currently published literature and from unpublished contributions by academicians and leaders in black economic development. They will be published this summer.

Further information about the School's continuing efforts in the field of entrepreneurship and about the projects and publications described here can be obtained from Patricia Braden, Research Associate, Division of Research.

Detach, send to: Division of Research, Graduate School of Business Administration, The University of Michigan, Ann Arbor, Michigan 48104. *Prepaid orders will be sent postpaid.*

Please send me:

____ copies of *Cases in Small Business* (Hoad, 1968, 247 pp., $5.00)
____ copies of *Uses of Accounting for Small Business* (Zeff, 1962, 67 pp., $2.50)
____ copies of *Legislating for Economic Expansion* (Gies, et al, 1970, 449 pp., $10.00)
____ copies of *State of the Black Economy* (Whittaker, 1973, 222 pp., $3.00)

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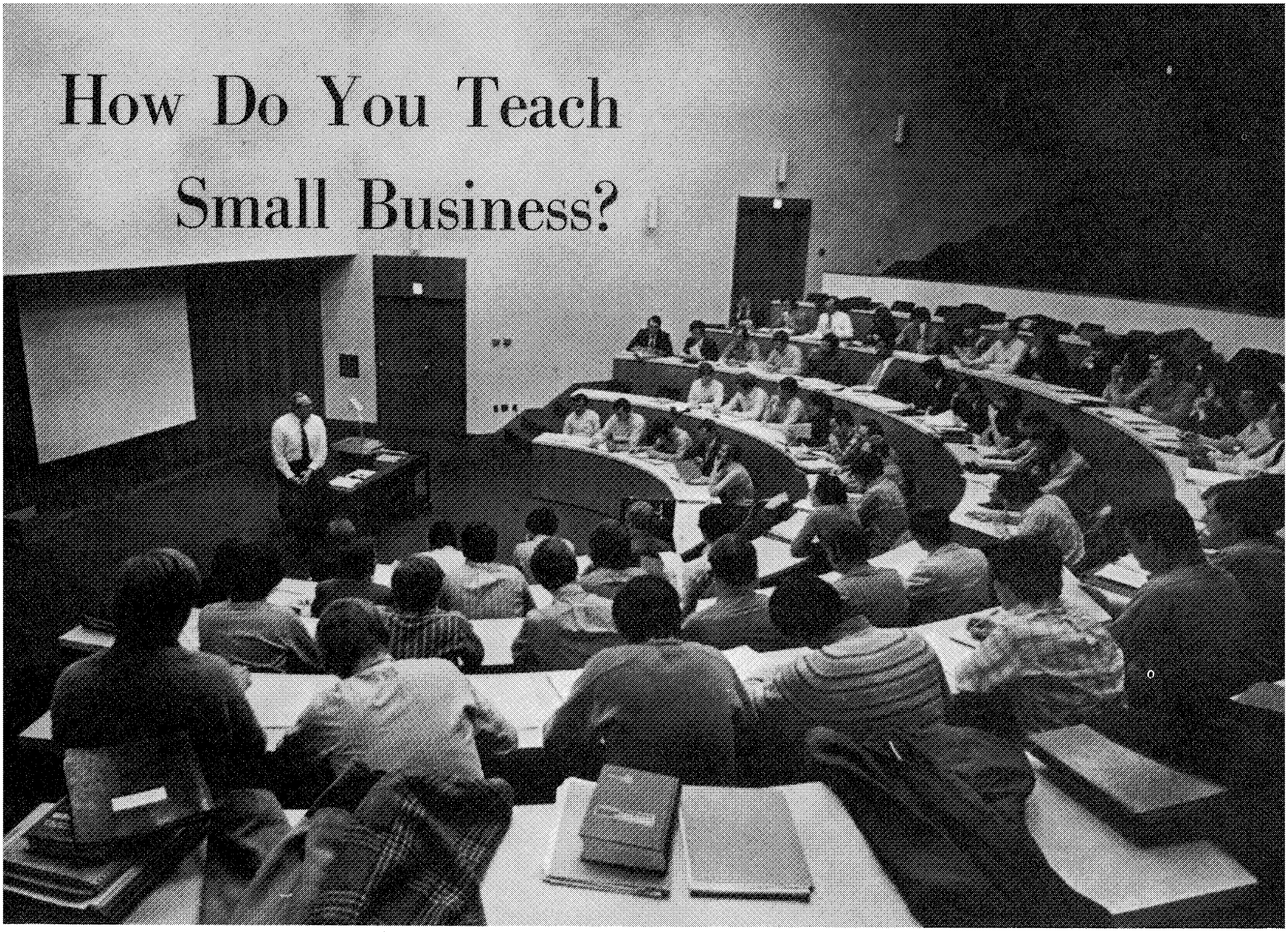
How Do You Teach Small Business?



Dr. Hosmer's class in small business management meets in the case discussion section of Hale Auditorium.

Dividend interviews LaRue Hosmer, who teaches a course in small business management, and a seminar in small business formation.

Editor's Note: LaRue Hosmer, associate professor of Business Administration, received his MBA from Harvard in 1951. Soon after receiving his degree, he founded the Hosmer Machine Company which he operated successfully until 1968, when he sold it and returned to Harvard for his DBA. He joined the Michigan Business School in 1971, and now teaches a course in small business management, a seminar in small business formation, an experimental course in the operations management of service and non-profit organizations, and the required course in business policy.

Q. *Tell me about the Hosmer Machine Company.*

A. That was the company I started. It manufactured sawmill machinery, and grew from the original three employees to 104 employees before we sold it.

Q. *What made you decide to go into the sawmill business?*

A. When I was finishing my MBA at Harvard, I made a quick survey of the industries that Harvard MBAs had entered. No one, so far as I could tell, had ever gone into the lumber business—that's why I chose it.

Q. *Did you go right out after graduation and start your own business in the lumber industry?*

A. No indeed. I worked as a laborer in a pulpwood operation in New Hampshire, and then as a logger for a sawmill in northern Vermont to get experience. Then I went to Iquitos, Peru—on the border of Peru and Brazil on the Amazon River—as the manager of a walnut logging operation. Then I came home and started my own company. At the time I started it, sawmill machinery was very old fashioned—in fact it hadn't changed much since the Civil

War. We designed more modern machinery using steel weldments for the frame, and hydraulic cylinders and valves for the control mechanisms —and we were successful, I believe, because we had a distinctive strategy.

Q. *What is that?*

A. Every small business has to have a distinctive strategy, or product-market position, to be successful. You have to offer something that is not available from any other company. Our company offered modern sawmill equipment tailored to the needs of the small lumber companies on the East coast. There was modern sawmill equipment available from the West coast, but that equipment was made for larger logs, and for larger companies. Our company met a specific need in a specific market.

Q. *Did you always know you wanted to go into small business?*

A. I suppose so, in the sense that I never wanted to be a cog in a wheel. It is interesting to note, though, that in 1951, when I got my MBA from Harvard, only the big companies recruited there. If you wanted to go into small business, you had to get your own job. I tell my class that you still do. Another interesting sidelight was that there were no cubicles for recruiters in those days. You met them on the street (literally) or in the professor's office. Also, the average salary for a Harvard MBA in 1951 was $3,600 per year!

Q. *Did many of your classmates go into small business after graduation?*

A. I don't know about right after graduation. But at the fifth reunion about 20% of the class had started their own businesses.

Q. *How do you define small business?*

A. Small business is hard to define. I tell my class to think of three basic categories. The first category is local business, or companies with less than $1 million sales and under twenty employees that derive their major income from local customers. For instance, a drugstore, bookstore or clothing store would all be examples of local businesses. Small business would be the next category, with sales between $1 million and 10 million, and perhaps 20 to 200 employees; small businesses generally sell within a geographic region. Last is the medium-sized business, with sales over $10 million, and often with national distribution. Companies grow from one category to another, of course, but for purposes of the course in small business, we stay with businesses between $1–10 million in sales and between 20–200 employees.

"*You can have an ordinary product if you have distinctive supporting policies.*"

Q. *Tell me about your class in small business.*

A. The class has one main theme, which is that a small business needs to have a distinctive strategy to be successful, and that strategy has to consist of a specific product-market position supported by consistent policies in five key areas: *marketing* (pricing, distribution and promotional policies); *production* (product design, process design and capacity design); *finance* (uses and sources of funds); *product development* (improvement and modernization of the product); and *personnel* (selection of the management and structure and systems of the organization). If you get these five areas tied together and supporting a specific product-market position, the company will be successful.

Q. *What exactly do you mean by "distinctive strategy"?*

A. You have to know exactly what you're selling, to whom you are selling it, and why they want to buy it. As a small company, you have to offer something that they can't get elsewhere.

Q. *Then are you saying that you have to have a distinctive product in order to be successful?*

A. Not necessarily. You can have an ordinary product if you have distinctive supporting policies. For example, MacDonald's sells a common product but they do it differently. They apply assembly line techniques to hamburgers—and stress quality control and prompt deliveries so they are really offering a new service that people can't get elsewhere.

Q. *How do you begin the class in small business?*

A. We start off with a case study of a company that is just nine months old and has only three employees, but that has problems in all five key areas: customers aren't buying their products, production schedules have fallen far behind, the company has run out of money, needed changes haven't been made in the product, and the people aren't working well together. The class spends the entire period discussing the case, offering criticisms of the company and advice on what it should do. At the end of this criticizing session, I read an announcement in the Wall Street Journal three years later, in which the company has just been sold for seven and a half million dollars. That really starts the class off with a bang.

Q. *Indeed yes. But how do you explain this?*

The company had a distinctive strategy, and was offering a needed product to a large market, so that it was successful even though it had numerous operating problems at the start.

Q. *And after everybody's basic assumptions have been shaken up by that case, then what?*

A. Then we study marketing, using the case method. We study a company's pricing policies, distribution methods and promotional techniques. After that, we go into market research. How do you find out who will buy the product or service and how much do they want it?

Q. *How do you find that out?*

A. I give the students a choice of two ideas for a product that could be sold in the Ann Arbor area. They then have to go out and interview to see if there is a good potential market for that product or service.

Q. *How do they decide who to interview?*

A. That's up to them. They have to figure out who would be their potential customers and how to contact them—that's part of the

"One reason some businesses don't grow is that the manager cannot change his style of managing."

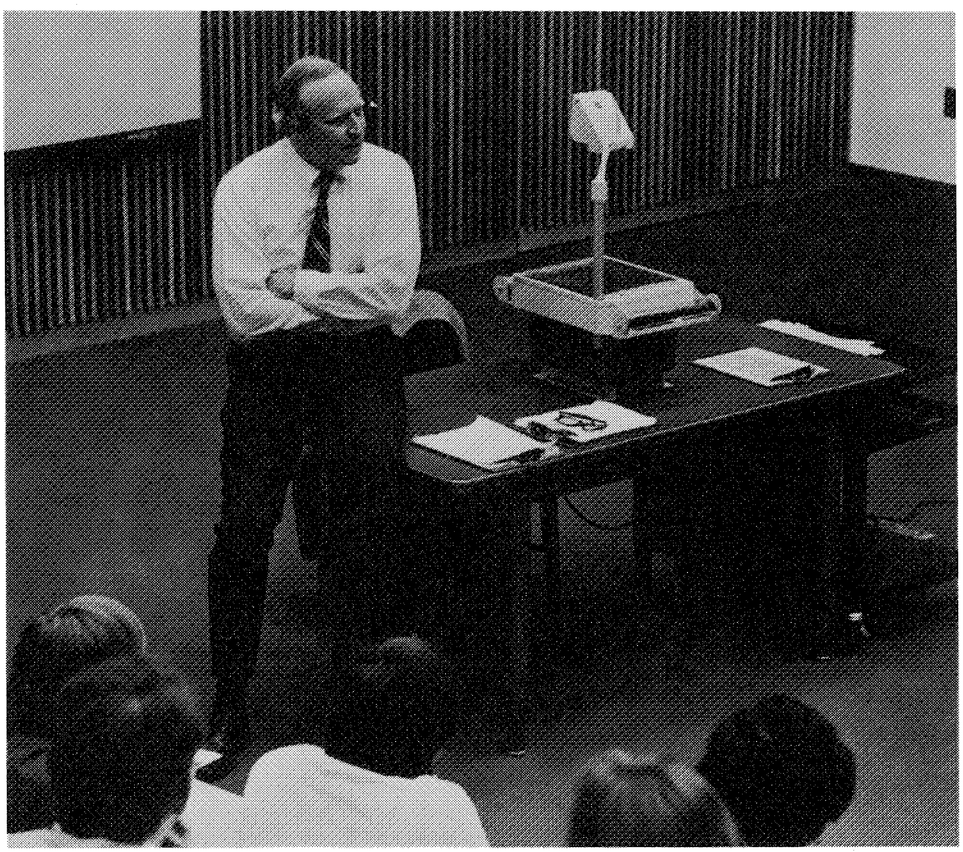
assignment. Then we talk about identifying the market segment and making a market forecast. After that, we study production.

Q. *What are the basic points about production?*

A. Again through the case method, we talk about how you establish production facilities? How do you design the product for efficient manufacturing? How do you establish the process? How do you estimate capacity? And finally, how do you plan your plant layout? I stress that they should keep things as simple and inexpensive as possible. Buy used machinery—rebuild things—keep costs down. I started my sawmill business in a barn. Later of course, when the company grew, we moved to our own new plant. But in the beginning it's very important to keep costs at a minimum.

Q. *And then do you go on to finance?*

A. Yes. We talk about forecasting financial needs and the various short term sources of funds (bank loans) and long term sources of funds (venture capital) that are available to small businesses. A banker from Detroit talks to the class about what he looks for when a new small businessman asks for a loan. He also tells about businesses that looked good to the bank but lost money. This helps the class understand why banks are hesitant to loan money to small businesses. Then a successful businessman talks about how he raised venture capital. The point here is that it's *very* difficult to get venture capital until the company is successful. You *have* to start on your own money and build it up. Then the venture capital comes in.



Dr. LaRue Hosmer

Q. *And after finance, what?*

A. Product development. A small company has to keep its product or service up to date. If you don't keep knowledgeable about what's going on, you lose your product advantage. This means keeping creative people working along with the rest of the company. We show a film of a meeting—a real meeting—between several Harvard MBAs—systems analyst types—and several highly talented designers working for a company. It illustrates how very far apart points of view can be. How can you resolve things enough so that everybody works together? It's not easy, and the film shows that.

Q. *What next?*

A. Then we come to the personnel and organization portion of the class. How do you get everyone going in the same direction at the same time? You can tie everything together through the structure (hierarchy) and through the systems (information system, measurement system, motivational system and control system). In a small company, these can be informal, but they have to exist.

Q. *Why? Don't many small companies consist of only four or five people?*

A. Yes, and this is an interesting point—the way styles of management have to change as companies grow. The typical company begins with one or two people. Maybe one handles all the inside problems and the other deals with the outside. Then as the company extends, you might have four or five people looking after functional responsibilities instead of one or two guys doing everything. The president has to delegate responsibilities, but still everybody can get into the same room, around the same conference table. Most companies run on a personal style of organization until about $1 million in sales. Up to $10 million, a company can be run by delegation. But above $10 million, the company has to be managed integrationally.

Q. *How?*

A. Now you have to hire staff and technical people. Instead of four or five guys around a table you now have market research people, cost control people, production scheduling experts, etc. etc. You can't get everybody into the same room. Now you have to devise policies, structures and systems that will pull the company together.

Q. *Are most people who found businesses able to shift their style of managing that easily?*

A. Not necessarily. In the beginning the founder of the business maybe was sweeping the floor, along with everything else. Later, though he doesn't sweep the floor, he has to make sure the floor *is* swept. The ability to do both things—that is, to do it all yourself and then later know how to delegate it and finally how to integrate it, often is not in the same person. This is one reason some businesses don't grow. The manager cannot change his style of managing.

Q. *Do you also teach a seminar in small business formation?*

A. Yes. That's an experimental course initiated by students who wanted a chance to follow up and continue some of the work they had done in the small business management course.

Q. *And how does the seminar work?*

A. Students are asked to pick a product or service which they believe is marketable, and then design the marketing, production, finance, product development and personnel policies to manage the company and market the product or service. They then report their findings to the group and get the students' evaluations as to whether they should go further or forget it.

Q. *Are you teaching any other courses?*

A. Yes. An experimental course called "Operations Management of Service and Non-Profit Institutions."

Q. *What does that focus on?*

A. It deals with how you operate service and non-profit institutions as opposed to manufacturing operations. I think many job opportunities in the future are going to be in the service and non-profit area rather than in the manufacturing area.

Q. *Why?*

A. Technology is very easily exported these days—so that it is no longer possible for one country to have a technological "edge" in manufacturing. With the higher wage rates, the productive position of this country is deteriorating in relationship to other countries, with obvious consequences for the balance of payments and value of the dollar. I don't think that there is much that we can do about that directly, but improvement of the supporting services can indirectly improve the productive position of the United States. I think that there is a great deal that can be done to improve these services. Also, I believe that the quality of life in this country is not going to depend upon our manufacturing operations as much as it is going to depend on the effectiveness and effficiency of services in finance, transportation, health care, education and government.

"I think many job opportunities in the future are going to be in the service and non-profit area rather than in the manufacturing area."

Q. *What specific services do you study in the class?*

A. Anything that is not made in a factory. We study banks, brokerage houses, accounting firms, hospitals, universities, inner city organizations. We look at consumer oriented services.

Q. *How do you study these services?*

A. We use case studies of existing operations, asking how the work is done now and how it can be improved? For instance, we study how you would go about scheduling the work to construct a small, three bedroom house. One of the major factors about this construction scheduling is that you don't have control over many of the activities, such as the plumbing contractor, the electrical contractor, the heating contractor, the cement delivery, etc., and it's difficult to keep your own men going when so many of their jobs depend upon the completion of so many other jobs. When students get through this assigment, they understand why housing is so expensive.

Q. *What is operations management?*

A. In studying operations management, we are really studying operating systems. One of the first things we talk about in class is what is a system? What are the objectives of the system? What criteria do you need to evaluate these objectives? What components should it have? What are the relationships between these components? Then, how do you fit together these objectives, criteria, components and relationships to form a productive system?

Q. *Do you work on the design of "productive systems?"*

A. Yes. We talk about the design of the product or service to be offered, and then about the design of the process to produce this product or service, and then about the standards needed in the process and the resultant capacity. Then we talk about planning, scheduling and control of the process to maximize the utilization of this capacity.

Q. *How does the course end?*

A. We end by talking about how you set objectives in a service or non-profit organization. These objectives determine what the productive system is really going to look like. I try to tie the course back to the Business Policy required course on the objectives and policies of business organizations. Most of my students are taking that course concurrently.

Q. *How do you get cases to illustrate your points?*

A. There are not many good cases in this area, so I have had to write quite a few of them myself.

Q. *What percentage of the cases that you use in your class have been written by you?*

A. At the moment about 40%—and I'm working towards 100%.

Q. *How do you find cases to write about?*

A. You look for interesting situations and then go out and talk to the

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Executive-in-Residence

The first Executive-in-Residence to occupy the handsome new quarters in the Assembly Hall was Walter E. Schirmer, Chairman of the Board of Clark Equipment Company, who recently spent two days at the Business School. He gave a short speech in Hale Auditorium, followed by a question and answer period, but the bulk of his time was spent in informal discussions with students and faculty, as the pictures on this page indicate. Of a new MBA, Mr. Schirmer said: "Responsibility has to come fairly quickly. But the person doesn't realize it's coming. Gradually he makes decisions on his own and people start depending on his decisions. We classify people by their decision making ability. We like the fellow who will give us one page spelling out the problems and recommendations for action."

Limitations on Rationality

The Best and the Brightest as a Case Study

By Bernard J. White

The Best and the Brightest has been acclaimed by many critics as the most important book on public policy in recent years. It is also an immensely important case study of organizational decision making. To those of us concerned with the theory and practice of administration, analysis of David Halberstam's account provides exceptional opportunities for learning and self-appraisal regarding our own assumptions.

How are organizational policies and directions decided upon? Few would defend a scenario of complete rationality: managers making decisions armed with full awareness of the array of problems before them, and privy to full information on all possible alternatives and the consequences of each. Surely, most managers know from their own experience that this is not the case. Nearly thirty years have passed since Herbert Simon, in *Administrative Behavior,* demonstrated that for a number of reasons (including cognitive limits on the search process and the inability to control consequences), fully rational individual decision-making is virtually impossible. And recent evidence on group decision making suggests that there are important pressures for conformity and concensus which militate against realistic appraisal of alternative courses of action.

Halberstam's important work on the decision making and decision makers of the Vietnam war can serve as a stimulus to explore this issue more fully. Do we really understand many of the *organizational* barriers to rational decision making? Does our teaching, on policy, on management, on decision theory, take them into account? And more important, does our behavior in organizations evidence that understanding? It is most disturbing that the exhaustive evidence of this study suggests that at least in the nation's highest councils, the answer is frequently no.

Halberstam's basic theme is by now well-known. The architects of the Vietnam strategy, by many criteria the most costly and least effective in American history, were not men of personal mediocrity or ineptitude. They were rather the nation's best and brightest breed: McNamara, Bundy, Rusk, Rostow, Taylor, and others. Selected by Kennedy for their fresh style, intellectual horsepower and recognized ability, they were retained by Johnson who found himself positively in awe of these same qualities. The obvious questions follow: given the outstanding abilities of the decision-makers, whence their decisions? How did they come about?

The book attempts to answer these questions within a framework of three threads of explanation: the legacy of history, including consequences of McCarthyism and the Cold War; personality characteristics of the chief participants; and the nature of the bureaucracy. I have no intention of delving into the complex of historical events and personalities which led to particular decisions. For the interested reader, Halberstam does a superb job of that.

However, certain organizational phenomena which can be abstracted from the narrative seem to me to be of such importance in explaining the impairment of rational decision making that exploring a few of them may be highly instructive. Strictly speaking, the effect of these phenomena at the organizational level is to reinforce existing limits on rationality at the group and individual level. I suggest that they fall into two broad categories, defined in terms of their consequences: (1) those which limit or bias alternatives; and (2) those which close off the feedback channels to the decision makers.

About the Author: Mr. White is in the Ph.D. program in Organizational Behavior–Industrial Relations. He received his MBA from the Harvard Business School in 1971 and his BS from Georgetown University in 1969. He has worked as a consultant on organizational problems, and as an administrative analyst at State Street Bank, Boston.

Limiting or Biasing Alternatives

"The commitment was already operative, burning with a special fuel of its own—bureaucratic momentum and individual ambition. . . . John Kennedy was fast learning that his personal and political interests were not necessarily the same as those of the thousands of men who worked in the government."

The single most important obstacle to a rational, unified organizational policy is a simple one. Organizations are populated by large numbers of individuals with very different personal goals and perceived means of achieving those goals. The problem is present in the simplest two-person organization. It becomes immense in modern corporations and government, which in some respects are not single organizations at all, but rather many separate bureaucracies linked more by law and financing than by genuine common interest.

For example, whatever one's stand on the wisdom of the bombing policy, it is clear that in the decision making that led to it, the mere existence of contingency plans for the bombing of the North lent a bias to that particular option. Contingency plans are developed by planners, who have a vested interest in seeing their plans implemented, or at least given serious consideration, both in terms of pride and satisfaction derived from their work, and often, career advancement. In another context, it is highly unlikely that the Acquisitions and Mergers staff of a company will, over a very long period, advise against acquisitions and mergers, whatever the external realities. This is inherently neither good nor bad. It must be recognized, however, as an important influence on which options are offered and supported, and thus on organizational policy and direction. Planning *does* effectively close off certain options and bias others.

An early lesson in rationality taught to new students of a Business School is not to neglect the "do nothing" option in their decision analysis. Implicit assumptions frequently associated with this option are that in taking it we can delay decision and hold other options open and their consequences constant; and also, that this option has an equal chance with others for consideration and acceptance. Evidence from Halberstam's book suggests that neither assumption is valid.

One reason that options cannot be held open is, of course, that the uncontrollable variables (in this case, the political situation in the South and at home, the strength of the North, etc.) which largely determine the consequences of alternatives, continue to change. As policy makers decide to do nothing, "events," in the words of Emerson, "are in the saddle and tend to ride mankind."

"It is highly unlikely that the Acquisitions and Mergers staff of a company will, over a very long time, advise against acquisitions and mergers."

Certain properties of the bureaucracy also reduce the viability of the "do nothing" option. In the simplest terms, while official policy may be to delay decision, individuals populating the bureaucracy *do not* "do nothing." That option is inherently unattractive to the bureaucracy. Careers are not advanced, resources are not garnished, satisfaction is not gained by doing nothing. (Let me suggest a frequent fallacy of those who attack the bureaucracy on the basis of its inaction. Inefficiency or lack of effectiveness should not be confused with inaction). Thus, to the extent that lower levels of the organization affect the alternatives considered at the top, there is a significant bias against inaction. And even when the "do nothing" option has been adopted by top policy-makers (usually by default), it is often the most difficult one to "implement" in the organization.

The history of the Vietnam experience abounds with examples. Nineteen sixty-four was the year in which the official decision was to do nothing on Vietnam, to hold options open. Yet strangely, 1964 was also the year in which American ships were in the Gulf of Tonkin, their mission one of provoking N. Vietnamese radar; it was the year in which air raids over the North began; and it was the year in which the number of U.S. advisors was substantially increased. All this under the official policy of delaying decision, keeping options open.

Halberstam's evidence suggests that this paradox is explained by peculiarly powerful properties of a "maze-bright" bureaucracy. It is a function of (1) the bias of individual subunits toward particular options, as discussed earlier; and (2) a remarkable ability to learn quickly the proper *process* by which to offer up options to the decision makers. This assures at least disproportionate attention to, and probably adoption of, the options acceptable to powerful blocs in the bureaucracy.

For example, knowing Lyndon Johnson and his subordinates as doers, as men who would not back off from a challenge, and as men given to "the middle road," the supporting staffs quickly developed a subtle ability to present problems as challenges requiring action, and the options in terms of several extremes with one (apparently) eminently restrained and reasonable choice. ("What was significant about the proposals the Bundy Group presented to the President was that all three included bombing; there was really no political option at all.") The results of the decision making were predictable.

To generalize, the decision makers at the top of the organization are handed a stacked deck, one consisting of the options acceptable to powerful groups and individuals lower in the bureaucracy. Evidence and criteria on which the final decisions will be based are also carefully selected, filtered, and even altered. Thus, even when conflict over options rages at the top, it is generally a conflict over already highly constrained choices. Limited individual rationality, reinforced by pressures of group decision making, is still further constrained by apparently inevitable properties of the supporting organization.

Yet, decisions must be made; events require it. C. W. Churchman, in *The Systems Approach,* contends that the inevitable result is the creation of "a theory of deception": the decision maker must momentarily deceive himself in assuming that he has adequate information on alternatives, consequences, and costs, and make his decision accordingly. But the only defense against this momentary *theory of deception* becoming permanent *self-deception* is feedback; information on the outcome and consequences of the decision. It is only with proper feedback that the decision maker can test the validity of his original assumptions, rethink his strategy, and change an existing course.

Does a large supporting organization, with its enormous capacity for gathering and processing information, *aid* in this crucial feedback process and thus contribute to more rational decision-making? Evidence from Halberstam's case study indicates that for a number of reasons, it does not. To the contrary.

Closing Off the Feedback Channels

". . . as ultimate responsibility for policy rests with the top officials of the Department, he (a Foreign Service officer) need feel no responsibility for the course on which we are embarked. Furthermore, his opinions might be in error or misunderstood, or misrepresented—and so the safest thing for a bureaucrat to do in such a situation is to remain silent."

— John Paton Davies

The silent bureaucrat is a stereotype. Davies was not one, and paid an enormous personal price. Yet most of those with doubts about the policies, privy to information which would have challenged the assumptions on which decisions were made, did remain silent, or withheld or filtered or altered such information. Why? We are inclined to attribute such behavior to innate "spinelessness" in the bureaucrat or organization man. Yet, B. F. Skinner's contention that behavior is a function of its consequences seems relevant here. The consequences to the individual of expressing doubts, or of honestly reporting unfavorable information on the outcomes of policies were, by and large, unfavorable. The rewards lay in support, in loyalty, in favorable reporting. Therefore it is not a question of weak character but of motivation: the individual responds in a predictable manner to a system of organizational and personal rewards and punishments.

It is said that the ancient Greeks killed the messenger who brought bad news. It does not require very sophisticated behavioral analysis to realize that under these circumstances, messengers will soon be difficult to find, or will only accept good news for delivery, or if forced to take bad news, will report it favorably. In any event, the recipient will certainly never hear bad news from the messenger.

"It is difficult to advance one's career through the role of critic, doubter and challenger to the policies of those in power."

There is a direct parallel in modern organizations, only the punishment is changed. It is not the life but the career which is arrested. Evidence from Halberstam's history indicates that the inevitable consequence of this kind of punishment was the elimination of dissenters, or at least of dissent, and the filtering out of much negative information on the outcomes of decisions.

There are several reasons why individuals at the top of the organization evoke from their subordinates only information which supports or at least does not challenge existing policies. One is the issue of *evaluation* and *promotion criteria.* It is most difficult to advance one's career through the role of critic, doubter, and challenger to the policies of those in power. And, as mentioned earlier, large segments of the organization themselves have commitments to and vested interests in the success of the existing policies. Negative feedback on the outcome of these policies is not particularly welcome.

Another constraint on the feedback of such information is the frequent demand for *loyalty.* Loyalty is of course a tenacious sacred cow of organizational life. The individual is expected to be loyal to—to what? A typical answer might include loyalty to organization, to superior, and to self. However, like any unanalyzed abstraction, this concept of loyalty does not constitute a very useful criterion for directing behavior. Behavior will be a function of the structure of rewards and punishments, and in most cases these lie in the degree of *personal* loyalty shown by the subordinate to his superior. A penchant for this type of loyalty appears to have been a significant personality characteristic of Lyndon Johnson.

The difficulty arises in the almost inevitable association of criticism of policy with personal disloyalty. The significant extrinsic costs to the individual trapped in this position, combined with a natural need to be held in high esteem by one's own superior, act as further forces to prevent dissent and negative information from reaching the decision makers.

Thus, top decision makers in a large organization find themselves in a uniquely disadvantageous position. Their perceptions of problems, options, and consequences are a function of the needs, goals, and strategies of subordinates and organizational subunits. Their feedback on consequences of decisions is distorted by the desire of individuals to please, to gain approval, to further a career, to be loyal. Given the inevitable isolation of the decision maker from events and conditions, reality-testing is his most difficult task. It is the reluctance, or the inability, or the *hubris* of the decision maker to

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Among Ourselves

An informal collection of items, including news of the faculty, of alumni, and of the school, and assorted other information, opinion or comment that we think will interest you.

Associates Attend Seminar on Taxation

"Future Patterns of Federal Corporate Taxes" was the topic of the second seminar developed for the Associates of the Graduate School of Business Administration and held May 6–7 on the U–M campus. Representatives of the twenty companies which are members of the Associates Program gathered for a reception and dinner at the Campus Inn May 6. Following dinner, a talk on "The Budgetary Outlook and its Implications for Federal Taxation" was given by Edgar R. Fiedler, MBA '56 with High Distinction, Assistant Secretary of the Treasury for economic policy. Dean Floyd A. Bond presided.

The following morning, the Associates heard James E. Wheeler, associate professor of accounting and member of the Tax Policy Committee of the American Institute of CPAs, talk on "Financial Disclosure of Federal Income Taxes" in the Board Room of the new Assembly Hall building. After coffee in the executive lounge of the Assembly Hall, Harvey E. Brazer, professor of economics and consultant to the Federal Reserve Board, discussed "The Possibility of Full Taxation of Capital Gains."

After luncheon, participants attended sessions that focused on "Potential Effects of European Tax Patterns on America," which was the topic of a talk by L. Hart Wright, professor of law who served as consultant to the Commissioner for Internal Revenue; and "Prospects for and Dimensions of Tax Reform in the Congress," which was discussed by John S. Nolan, partner in the Washington, D.C. law firm of Miller and Chevalier, and former Deputy Assistant Secretary of Treasury for Tax Policy. The sessions were moderated by Dr. D. O. Bowman, Director of the Division of Management Education of the Graduate School of Business Administration and professor of business economics.

Dean Bond established the Associates Program in 1971 to produce a stronger working relationship between the Graduate School of Business Administration and the business community. Under the program, member corporations receive a number of services (such as the seminar described above) and the Business School is enabled to undertake projects that cannot be financed out of general funds.

National Conference on Energy Outlook to be Held at B School

More than 225 financial and business writers from the nation's working press are expected to attend The National Financial and Business Writers' Conference on the Energy Outlook to be held June 11–13 on the U–M campus. The conference is co-sponsored by the Graduate School of Business Administration and Edison Electric Institute. Dr. D. O. Bowman, director of the Division of Management Education of the Graduate School of Business Administration, is general chairman of the conference.

The conference will consider such topics as the economics of energy, the future of regulation of the public utilities, problems concerning energy use in the future and various alternative solutions to the problems, and the interest of the consumer in electric power. Among the speakers and panelists will be Dr. Paul W. McCracken, Edmund Ezra Day University Professor of Business Administration and former chairman of President Nixon's Council of Economic Advisers; Dr. Thomas G. Gies, professor of finance; Dr. Edward J. Mitchell, associate professor of business economics; and Dean Floyd A. Bond.

International Management Conference Chaired by B School Graduate

Dr. Amnuay Viravan, MBA '54, Ph.D. '59, served as one of three chairmen at a major international briefing session on "South East Asia: New Expanding Role in World Trade and Investments." The session was held May 2–4 at the Shangri-La Hotel in Singapore and was sponsored by the International Management Association, Inc. Dr. Viravan is Director of the Economic Cooperation Center for the Asian and Pacific Region. Other chairmen of the briefing session were K. H. J. Clarke, President of the Pacific Basin Economic Council, and Julius Tahija, Chairman of the Pacific Indonesia Business Association.

The briefing session, held to provide a factual and informative regional overview of South East Asia to allow businessmen to evaluate trading and investment prospects for their companies, featured many authoritative speakers including H. E. Adam Malik, Foreign Minister, Republic of Indonesia; H. E. Dr. Sumitro, Minister for Trade, Republic of Indonesia; H. E. Hon Sui Sen, Finance Minister, Republic of Singapore; H. W. Kwang Shih Chang, Vice Minister, Republic of China and Jamil Jan, Chairman, Federal Industrial Development Authority, Malaysia.

Ross Wilhelm's Radio Commentary Wins Award

The U–M's WUOM-FM radio station has won the 1973 Janus Award for its program, "Business Review," a weekly commentary prepared and presented by Dr. Ross J. Wilhelm, professor of business economics at the Graduate School of Business Administration.

The annual award is part of a nationwide competition sponsored by the Mortgage Bankers Association of America "to encourage broadcasters to provide authoritative, regularly scheduled programs characterized by informed, comprehensive coverage of financial news."

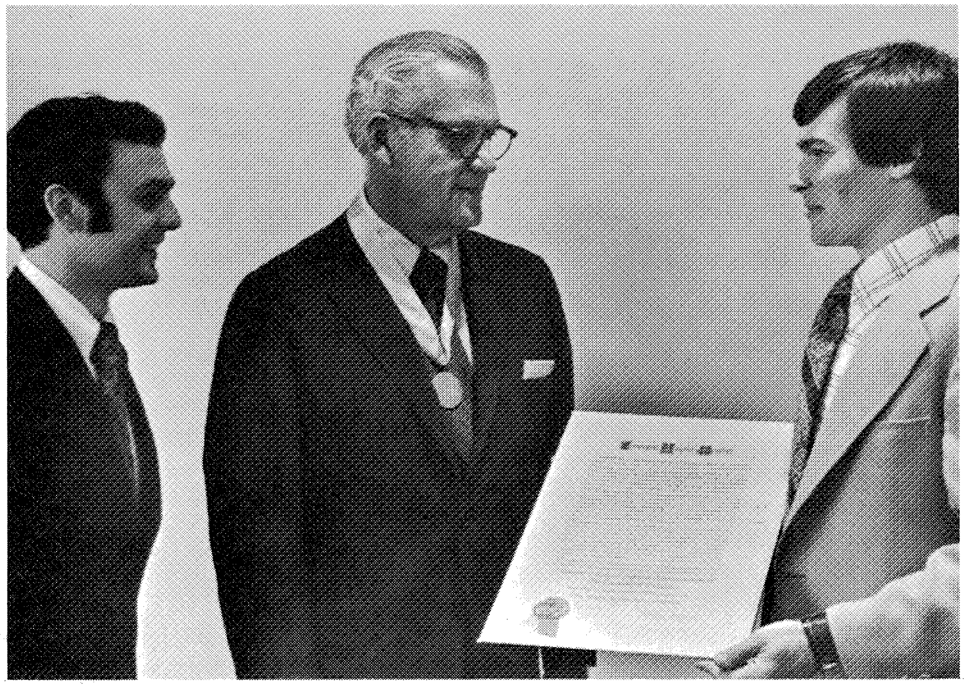
The award to WUOM cites the University station for "Excellence in Financial News Programming" in the category of educational radio.

"Business Review," now in its 12th year, is distributed by the University Broadcasting Service to more than 90 radio stations, both commercial and non-commercial. The program has also been broadcast by the American Forces Radio Network and on occasion by the Voice of America.

In announcing the Janus Award, MBA President Everett Mattson stated that "the high quality of this program makes it easy to understand why it is carried by so many other stations and networks outside of Ann Arbor."

Watermans Off To Far East

M. H. Waterman, professor emeritus of finance, and his wife moved to California last year after his retirement. Now they have gone further west—in fact to Manila—there to work under the auspices of the International Executive Service Corps (otherwise known, according to Waterman, as the "Paunch Corps") at the Asian Institute of Management. They will be in the Philippines for six months, returning to California about July 1st.



Joseph I. Miller receives the Business Leadership award from Brian W. Koop (right), president of the Student Council and Peter Allen, student member of the selection committee.

President of Cummins Engine Receives Leadership Award

Joseph Irwin Miller, chairman of the board and chief executive officer of the Cummins Engine Company, received the 1973 Business Leadership Award of the Graduate School of Business Administration April 10 at a ceremony in Hale Auditorium of the new Assembly Hall. The award is made annually to a prominent businessman who has shown "an understanding of the responsibility of business to society and an interest in business education." The recipient is chosen jointly by students and faculty of the business school.

By paying design costs if his fellow townsmen agreed to use leading architects for new public buildings, Miller sparked an architectural renaissance in Columbus, Indiana, headquarters of Cummins Engine. The result has been a community that is an inspiration and model for other towns.

Miller joined Cummins in 1934, and helped transform the small, deficit-ridden engine manufacturer into a successful, diversified corporation with worldwide sales exceeding $500 million. He was named president of the firm in 1945, chairman in 1951, and also has served as chairman of the Irwin Union Bank and Trust Company of Columbus since 1954.

Miller received a bachelor's degree from Yale University in 1931 and a master's degree from Oxford University in 1933. He has received honorary degrees from twelve universities including Yale, Princeton and Columbia. From 1960–1963 he was President of the National Council of Churches. He is a Fellow of the Yale Corporation and a trustee of the Ford Foundation, Museum of Modern Art, and the Urban Institute. He served as chairman of the Special Committee on U.S. Trade with East European Countries and the Soviet Union in 1965, and is a member of the Business Council and the Conference Board.

The Business Leadership Award, a gold medal and parchment scroll, was presented to Miller by Brian W. Koop, president of the Business School Student Council, and Peter Allen, student member of the selection committee.

"Practical Controllership" and Modern Problems

An in-depth re-study of the nature of the controllership function is part of the first section of the third edition of "Practical Controllership," which has just been published by Richard D. Irwin, Inc. The authors are Leo A. Schmidt, professor emeritus of accounting at the Graduate School of Business Administration; Andrew M. McCosh, former U–M accounting professor now at the University of Manchester, England; and David R. Anderson, former controller of The Stanley Works.

Their preface points out that 25 years of unprecedented technological development and economic growth have intervened since publication of their first edition of the book shortly after the end of World War II.

"The standard of living, at least in the developed countries, has reached a new high level," the authors note, "and scientists in all disciplines are predicting the early arrival of the time when man's major problem will be how to utilize his leisure time, rather than how to feed, clothe, and house himself and his family. By these signs it would appear that we should be well on our way to achieving the best of all possible worlds.

"There is, however, another side to the coin. Our progress has been accomplished at the cost of a severe inflation that carries the threat of an ultimate collapse in the economy. The economic gap between the have and the have-not nations has widened, and the have-nots are envious and resentful. We have suddenly realized that, in our enthusiasm for growth and ever more growth, we have been abusing our natural resources; almost overnight, pollution of the environment has become a prime political and social issue."

Recognizing the heavy demands of this modern context, the first section of the revised edition of "Practical Controllership" is an in-depth re-study of the nature of the controllership function which analyzes its relation to the legal, secretarial, and treasury functions and outlines the pattern and possibilities of its major service: information to line management.

Subsequent sections on basic techniques, operational planning and control, corporate strategy and long-range planning, and advanced computer techniques demonstrate the implementing of the controllership function under the practical complications faced by the modern businessman.

The second edition of the text has been published in Spanish and Italian, as well as English editions. It has been adopted by more than 150 institutions of higher learning worldwide. The first edition was published in 1947; the second edition in 1961.

Computer Workshops to be Held This Summer

A two-week program entitled "The Use of Computers for Solution of Problems in Business" will be held in Ann Arbor July 30–August 10. This is the fourth year that the program is being held. It has the financial support of IBM and the sponsorship of the American Assembly of Collegiate Schools of Business. Four similar workshops have been held at the U–M Graduate School of Business Administration in previous years; one in 1969, two in 1970 and one in 1971. This year, a second 1973 workshop will be offered in Boulder, Colorado from July 16 to July 27.

Participants in the computer workshops, which are designed for business school faculty members, learn the fundamentals of program development and implementation, study documented applications, and reach a level of confidence vis-a-vis "computers" and "software packages" so that use of the computer as an integral part of classroom teaching can be aggressively pursued, and effective direction can be given to student assistants who are working with the computer.

The Ann Arbor workshop will be directed by Dr. Thomas J. Schriber, professor of statistics and management science, who originated the program. He will be assisted by Laurence A. Madeo, lecturer in statistics. The Colorado workshop will be directed by Dr. J. Daniel Couger, business school professor at the University of Colorado's Colorado Springs branch. Each of the two programs will accommodate thirty-five participants from business schools across the coutry: both are filled.

IIC Co-Sponsors Seminar on Doing Business in Eastern Europe

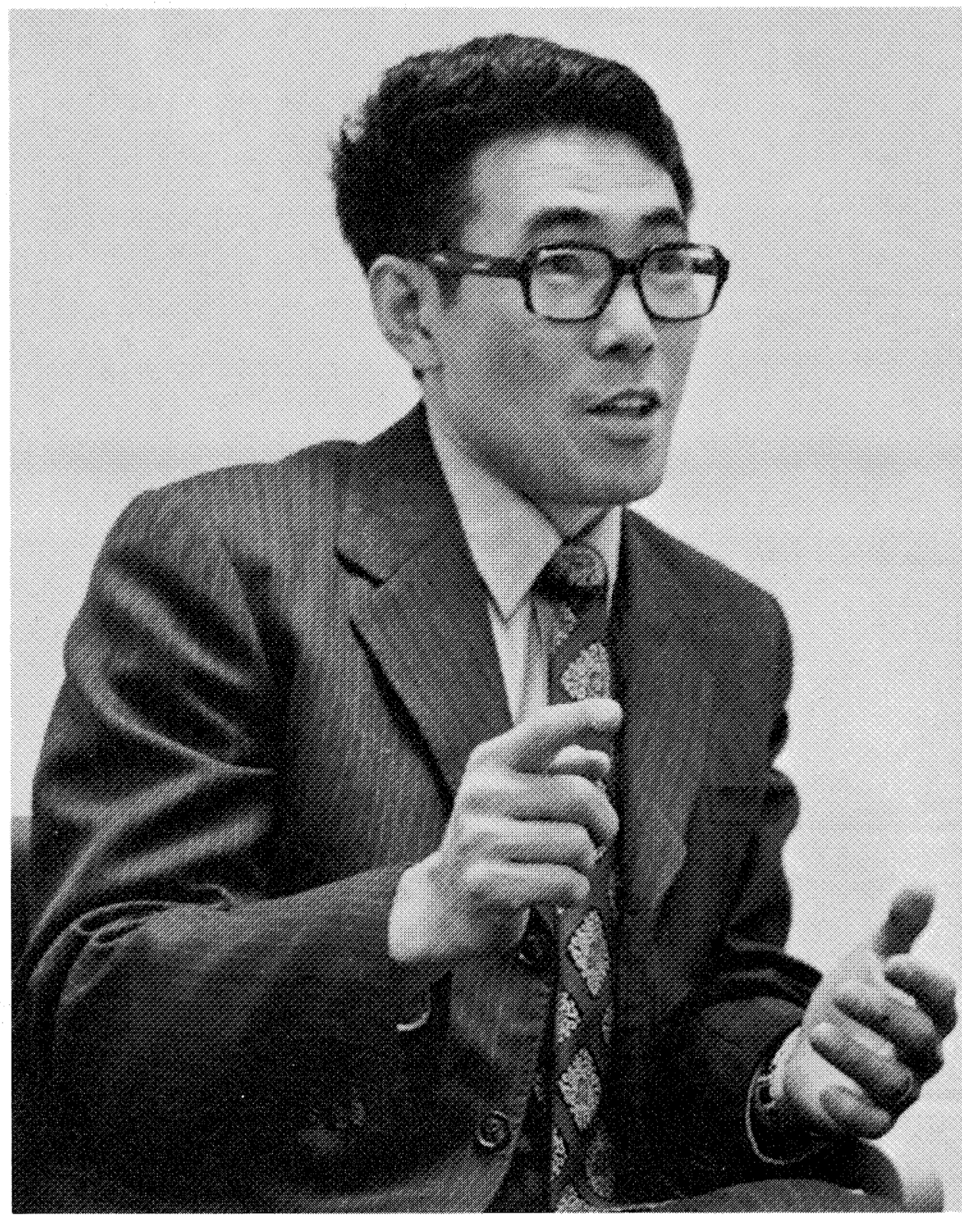
Economists, Eastern European trade representatives, business executives and university authorities took part in presentations and discussion on "Doing Business in Eastern Europe" this spring at the Campus Inn close to the U–M campus. The seminar was presented by the Institute for International Commerce of the U–M Graduate School of Business Administration, the U–M Center for Russian and East European Studies, and the Detroit field office of the U.S. Department of Commerce.

Seminar organizers noted that "Eastern European economies are now a prime target for the aggressive marketing executive. In the past two years we have seen favorable political changes as well as an optimistic outlook concerning increased trade between East and West.

"The business executive has found that trading conditions are basically different from those to which he has been accustomed. This seminar pointed out these differences and suggested ways of operation under these new conditions."

Session leaders, in addition to European representatives and members of this year's trade mission to Moscow and Warsaw, included J. Mishell George, U.S. Department of Commerce; Ed A. Hewett, University of Texas; John P. Morgan, National City Bank of Cleveland; President Paul O. Proehl of Satra Consultant Corp.; Robert Redmond, Merban Corporation; Clara Reece, Tower International, Inc.; F. Arthur Simmons, Wickes Corporation; and William Zimmerman, director of the U–M Center for Russian and East European Studies.

Visiting Scholar



Dr. Philip Yuen-ko Fu, who is at the Business School this year as a Visiting Scholar.

Chinese government accounting during the Sung Dynasty (960–1279) is the primary research interest of Dr. Philip Yuen-ko Fu, who is at the Business School this year as a Visiting Scholar. Dr. Fu received his diploma in business administration from Chung Chi College in Hong Kong, his M.S. in accounting from Brigham Young University in Utah and his Ph.D. in accounting from the University of Illinois. He is currently on leave from Chung Chi College, where he is chairman of the Department of Business Administration. His wife, Gail, holds a master's degree from the University of Michigan (1967) and is now working on her Ph.D. in English and education at the University of Michigan. She also teaches at the Chinese University of Hong Kong and is pursuing her studies here this year on leave.

Dr. Fu says he wanted to come here because, "in accounting, Michigan is one of the best." As a Visiting Scholar, Dr. Fu enjoys the use of a small office, the Business Administration Library, and the book collection in the Asian Library. In addition to his research on accounting in the Sung Dynasty, he is also auditing two accounting courses in order to review the subject and to observe the teaching methods and techniques used by the professors here.

What about accounting in the Sung Dynasty? Dr. Fu says accountants in that dynasty made at least two contributions to the development of accounting in China. One was bringing to maturity the compilation of a particular sort of accounting report, called *K'uai-chi Lu,* which was a statistical report with financial data playing an important role. Items reported included such things as the number of households and population in each area, revenue and expense in terms of cattle, grain, etc., as well as money. The other one was developing the accounting methodology of *Ssu-chu ch'ing-t'se.*

During the past ten years, the Business School has had many scholars from abroad visit our campus, and quite a number spend a term or full academic year in residence. The three most recent individuals to do this have been Knut Boye, Assistant Professor of Finance at the Norwegian School of Economics and Business Administration in Bergen, who spent the entire academic year, 1970–71 with us; Hein Kuhlmeijer, Professor of Marketing and former Dean of the Netherlands School of Economics, who spent the Winter Term 1970–71 with us; and Kazimierz Gebarski, of the Polish Management Development Center in Warsaw, who spent 1971–72 with us on a Ford Foundation Fellowship.

Next year, Dean Bond just announced, our Visiting Scholar will be Professor Wietze Eizenga of the University of Leiden. He has been selected by The Netherlands Government to receive the Visiting Professorship at The University of Michigan for the academic year, 1973–74. He will occupy an office in our new Assembly Hall. In addition to completing the writing on a finance book (and doing some off-campus lecturing which is expected of anyone holding this position), he will teach a course in the fall term and be available for occasional lectures in other courses and seminars on invitation of the instructor.

How Do You Teach Small Business?

Continued from page 14

people involved. In the course of the interviews, you find out what the major problems have been, how they have been solved, or not solved, and what has happened as a result of whatever actions that were taken. Ann Arbor is filled with material for interesting cases. One of the most interesting cases in the operations management course is on the registration procedures at the University of Michigan. All of the students have endured the long waits to register in the Waterman Gymnasium, but when they try to improve the process, they find that it is very complex, and difficult to improve. An interesting case in the small business course is on a proposal to start a small brewery in Ann Arbor for the student market. I am writing cases now on an artificial diamond manufacturer—did you know that Ann Arbor was the artificial diamond capital of the world?—and on a highly successful small business here that hires only the handicapped, and on a company making indoor greenhouses. These are just a few of the many unusual companies based in this area.

Q. *What are you going to do with all these cases, besides use them in classes?*

A. I am working on a textbook in small business, and on another in operations management, and the cases will be used in these books. The first book will be out next year.

Q. *Is there any particular advice you would give someone starting a small business?*

A. Have a distinctive strategy and support it with consistent policies in the five key areas—marketing, production, finance, product development and personnel. In addition, be sure you are thoroughly informed. We end the class in small business with three instructive cases on this question of knowing what you are doing.

Q. *What kind of instructive cases?*

A. Cases that illustrate the strange and ludicrous things that can happen if you are not thoroughly informed.

Q. *Like what?*

A. The first case is about a man who goes to work for a company in which he has received 49% of the stock as his share. Soon after he starts work he finds that the other 51% of the company is owned by the local mobster! The second case is about a group of MBAs who buy a boat company without carefully checking the design of the boat. They soon find out that the boat will float, but is not stable. As soon as you get into the boat, it turns turtle. That ends that business.

Q. *Dare I ask the third case?*

A. The third case is about six MBAs who go into business in a very high technology area about which they know nothing. A venture capitalist gets them to go into the business because he wants to sell the stock, make a bundle, and get out. He ends up in jail for misrepresentation, and they end up without a company, without money, and without any reputation.

Q. *And the moral of these cases is?*

A. Lots of the students are pretty eager to get into small business. This slows them down a little—and makes them realize how important it is to know thoroughly what they are doing.

Limitations on Rationality

Continued from page 18

recognize these problems which constitutes the most serious limitation on rationality.

"They were rational men. . . . If someone in those days had suggested that they, all good rational men, were tied to a policy of deep irrationality, layer upon layer of clear rationality based on several great false assumptions, and buttressed by a deeply dishonest reporting system which created a totally false data bank, they would have lashed out sharply."

Herbert Simon suggested some years ago that organizational decision making could best be described as "intendedly rational." The implication of course is that at times decisions may be less than fully rational. Evidence from this study supports that contention, and demonstrates some of the organizational phenomena which work to limit rationality.

To those of us concerned with increasing the rationality of decision making and administration, in whatever capacity, I would suggest that awareness of these phenomena is the most important step in combating them.

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Who is the Man With Many Hats?

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inefficiencies he saw in large companies, the politics played by middle and lower managers, and having his suggestions ignored. "After my BBA," said a graduate who recently went into business for himself, "I worked for a large company in a huge warehouse office with about 500 desks row upon row, and I didn't want *that* again." Besides the dislike of being a small cog in a large machine, our respondents spoke over and over of the need to control their own careers, the desire for freedom and flexibility to make major decisions as impelling reasons to go into business for oneself. "The choice was not one of a small business vs. a large company," says the president of a $10 million firm. "The choice was one of working for another person or for myself. Once this decision was reached, it was only a case of limited financial ability which determined the size of the starting operation. Being a small business is only a position on the way to becoming a large company."

Although no one downgraded the importance of money, there seemed to be little doubt that the autonomy and sense of control of one's own life was the most rewarding aspect of small enterprise. What you do has a direct and measurable effect on what happens to your company. Says William R. Koretz, MBA '66, who left Lever Brothers three years ago to start Shrimp Walk restaurant in Highwood, Illinois, "When you create something from scratch and build a successful business, you achieve a personal satisfaction that is unequalled in a large corporate structure. There are problems, sure. Yet these problems become your 'baby' and you enjoy solving them because the rewards are all yours—and perhaps this is the greatest benefit of a small business—seeing your work come to a successful fruition."

WE WANT TO HEAR FROM YOU!

Cut Along This Line. Address on Other Side.

Believing that a two-way flow of information between the School and its alumni is important and mutually beneficial, we are continuing to publish a post card on which we invite you to write us. This month we would be particularly interested in your comments on entrepreneurship and decision making. Unless you indicate otherwise, we will feel free to publish your remarks in a letters column.

Answers to Quiz on Page 2

a) John D. Rockefeller b) E. I. Dupont c) Harvey Firestone d) Thomas Edison e) Henry Ford f) Alfred P. Sloan Jr. (His best selling book was My Years With General Motors) *g) Andrew Carnegie h) Bernard Baruch i) Walter P. Chrysler j) Alexander G. Bell*