Dividend

The Magazine of the Graduate School of Business Administration • University of Michigan • Fall, 1978

About the Cover . . .

Patterns made by the sun falling through the skylight in the Assembly Hall Building are the basis for our cover. This is part of a quiz called *Guess Where?* in which we show you various architectural details around campus and see if you can identify their locations. The quiz starts on page 10. Answers are on page 15. Photographs are by Virginia Geren.

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UNKs, EXECUTIVE VERTIGO, AND THE COST OF CAPITAL

General Management Challenges in a Mature Industry

By Patrick C. Ross
Senior Vice President, B F Goodrich Company
and
President, B F Goodrich Tire Division

Editor's Note: This article is excerpted from a talk given by Mr. Ross at a Dean's Forum held last spring at the Business School. After his talk, Mr. Ross met with students and faculty in the Executive Lounge of the Assembly Hall for informal discussion and questions.

The day before a world heavyweight champion is dethroned, I'm sure he pictures himself still as a young, viable fighter. However, his manager may have seen the coming downfall, and perceived the disparity between the fighter's self-image and the harsh realities of the competition.

Similarly, does a corporation recognize harsh realities soon enough? What are the challenges to large mature corporations in a mature industry?

In a mature market, our big corporations face crucial management challenges. The stimuli of big driving sallies into new markets are diminishing. Dramatic growth no longer comes with the territory, but the mature business needs to know the minimum growth it needs so it will not become marginal. If the market grows, the corporation must grow. With its breakthrough inventive period in the past, the mature corporation often lacks glamour that would attract the top talent it needs. And in a mature industry, management mistakes and errors of judgment may have a more profound effect than they would have in a rapid-growth market.

These are sweeping challenges. Yet how many solid case histories on mature industries are available? How many have been researched, written and studied? Can there be growth for a mature industry? If so, how do you achieve it? I would like to share with you some questions and hopefully a few answers based on my own experience with the BF Goodrich Company.

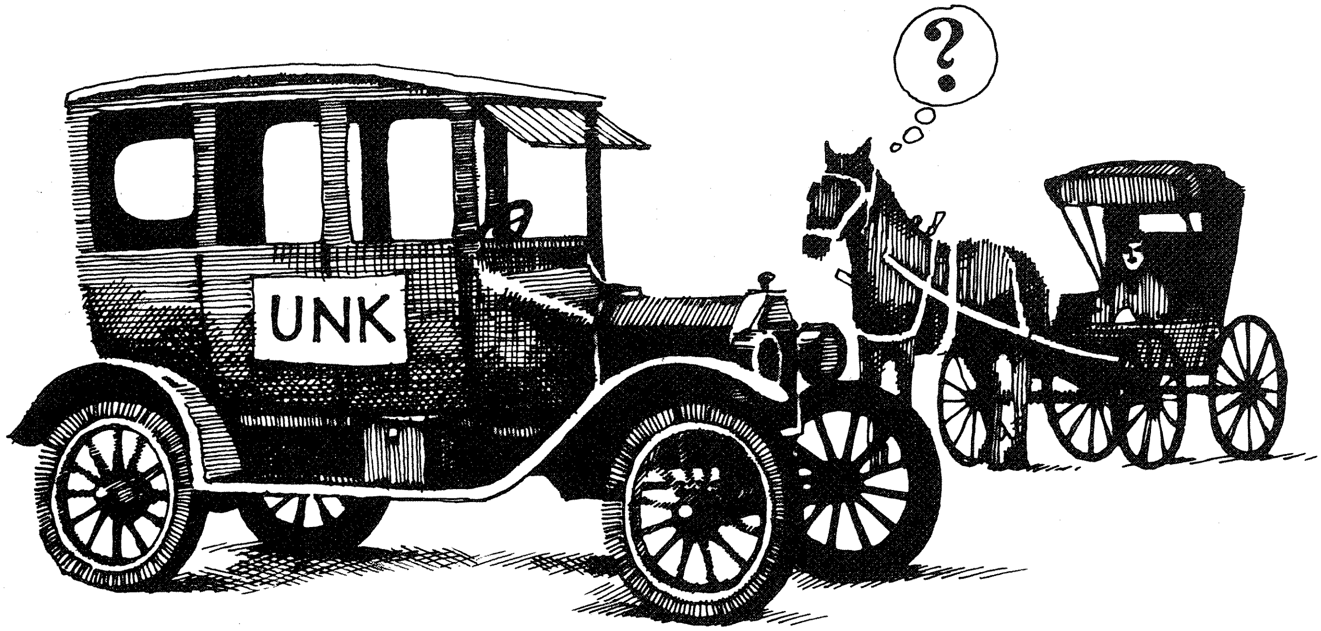
First I'd like to name four hazardous areas that face the management of a mature industry. I'd like then to suggest six serious mistakes I feel we can make. And last, I would like to discuss some useful strategies. But first, the hazards:

Hazard #1: Mis-management of the UNK factor.

Research and development scientists have a symbol they write into their theoretical equations: U-N-K, which stands for a known unknown. They assign a specialist team to work on that unknown which they know exists, while the rest of the team proceeds with development, hoping the UNK will be clarified somewhere downstream in the critical path of development.

In management, we don't provide for the UNKs very well in a mature market. And these UNKs could be dangerous surprises that spell our undoing. For example:

- During frontier days, canals had just reached maturity when the railroads surprised them by taking over their tow paths for road beds.
- The mature harness industry had little warning about the Model-T.
- Whenever you see a huge investment in telephone poles, keep in mind that microwave is not that far away from doing the whole job.



- In *my* business, you might say there'll always be a wheel requiring a tire. I suppose so. But I should be prepared to wake up tomorrow morning to a breakthrough in air cushion vehicles.

I feel we need to do a more intensive scouting job on the UNKs in mature industries. Right now, this is only being done on a small scale.

Hazard #2: There is another symbol engineers use—UNK-UNK. These are *un*known unknowns. Now the game gets a lot tougher. Unknowns involve the future. And given the realities of human nature and corporate structure, what incentive is there for a manager to take a long-range view beyond his own retirement? What incentive is there for managers to visualize long-range development of top future management talent? In other words: what incentive is there for a manager to conduct his business in a way that lifts his sights far beyond his own career, and his own lifetime?

Hazard #3: Executive vertigo. Corporation officers require great concentrations of power to mobilize resources and capital. It is an easy step from there for managers to drift into delusions of infallibility. Maybe they're not playing God, but at least playing senior archangels. Executive suites, as you may know, can be inhabited by apostles of the obvious. They can make mistakes, by acting out of habit, that in a mature market will magnify to colossal proportions and can't be corrected or absorbed in a mature industry.

Peter Drucker worries that society has always refused to allow such permanent concentrations of power in private hands, and especially for economic purposes. However, without this concentration of power, industrial society cannot possibly exist. So industrial power is tolerated. But this imposes upon the business world and its managers a responsibility which goes far beyond traditional business responsibility. In other words, management has a great need to be right—for everybody's sake.

I think the future manager should surround himself with devil's advocates—stubborn, bright men who express their honest belief and insights and yes, men who know how to use their creative imaginations without fear.

In my company I have one colleague whom I'll call "my best enemy." He has a few years on me, but does not hold a senior management job. He won't take it. He's happy where he is. He is vital to me, though, for a special reason: when I discuss future plans, sometimes he grins. Other times, he laughs. I have to argue very hard with him. He is "my best enemy." Management needs a devil's advocate to say "baloney"—because of the blinders that go on with the job. On his way up, the manager saw very clearly. But six months after being in office, friends—in a spirit of helpfulness—sometimes put the blinders on him—lovingly and with admiration. He needs a devil's advocate. And the manager must himself occasionally become a devil's advocate within his own company and with external company constituencies.

The corporation will never again belong *totally* to the stockholders. Society—without legal grounds but because of the nature of our democracy—has an ex-officio vote over the big, mature corporation because a major corporation is a powerful shaping force in society. Belief patterns ultimately are in charge of this world. This economy.

Hence, practically speaking, the corporation needs to be operated to the benefit of—or at least not to the detriment of—the society which has created it.

The stockholder can always sell his stock, but society can't sell off a corporation harmful to its welfare, and so must influence, or attempt to dilute its power.

The manager must respond appropriately to that influence. I can't say to society—"My boss, the stockholder, told me to do it." A manager is responsible for the impact of his corporation on society. It can't be assumed that what's good for Goodrich is good for . . . etc. The corporation officer has a friend-of-the-court relationship with society.

The consequence of the future manager's decisions upon mankind will be so serious that he must base them partly on the public weal. This may require laying his job on the line. He may have to close his ears occasionally to voices that speak for only limited interests, financial or otherwise, and think "public."

Hazard #4: Our system of financial reporting. Increasingly a mature corporation's business is the public's business. Perhaps this is not entirely right, but it is a fact, nevertheless. The public has especially made a corporation's profits its business.

Now we businessmen complain bitterly about the public's economic ignorance—especially its ignorance that profits are the main hope of the man in the street. But that is *our* fault. For 500 years, we have made a colossal mistake in reporting. That mistake would be more acceptable if we were doing it out of slyness or deceit. The frightening thing is—we're doing it out of ignorance.

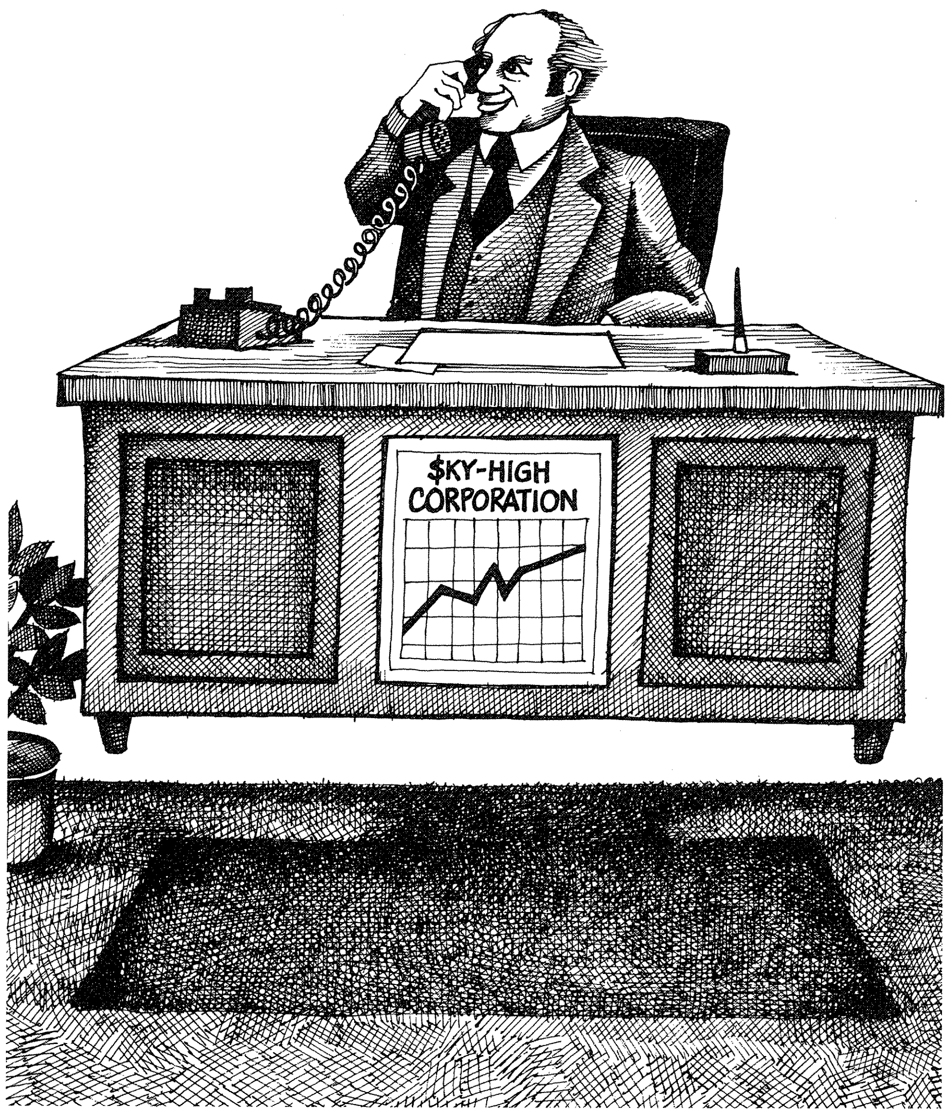
We have for 500 years pictured profit as income. The fact is, profit is *out*go. It's a *cost*. Like payroll or bar steel or machine oil or natural rubber. As Drucker puts it: "the essential thing about profit is that there is no such thing. There are only costs. What is called 'profit' and reported as such is a cost, the cost of the capital. Businessmen owe it to themselves and to society to hammer home the truth that there is no such thing as profit."

Sure, there are retained earnings; but they, too, are a pay-out—a cost—right back into capital equipment. Profit is not salary, wages—it's not anybody's take-home money.

It takes no remedial economics to understand that until we have the tool money, we have nothing going. And the man or woman who furnishes the tools, the investor, is entitled to be paid even before the person who *operates* the tool. In point of fact, the shareholder waits for his money until everyone *else* is paid, including the government.

If we do not correct this, we have a gun at our heads which can go off at any time of public anger. It will not be easy to correct. Now how can I present that proposition to the Big 8 accounting firms?

I consider this essential, because we are going to have to raise



"Corporation officers require concentrations of power to mobilize resources and capital. It is an easy step from there for managers to drift into delusions of infallibility."

enormous amounts of capital to execute the strategies I feel will be required in a mature market. And to attract capital we must be profitable—excuse me—we must earn the cost of capital.

Now I would like to discuss five serious mistakes I believe can be made as a corporation is maturing.

The first mistake is the natural inertia which makes the mature corporation vulnerable. This is no slur on large corporations. Inertia is as much a part of bigness as tusks are part of an elephant. But it needs to be shed. For performance in a mature market we should launch a systematic review to eliminate regressive corporate bureaucracies. We need to eliminate or reorganize internal kingdoms that no longer serve a productive purpose.

The second mistake has to do with diversification. It should be into fields closely related to the company's existing technology and capabilities. Ideal and logical is the fire department's diversification into emergency medical service. Not so logical is a tomato ketchup maker's diversification into steel, or a steel maker's diversification into restaurants or motels.

The third mistake could be the renaissance of the "we-must-create-new-markets" syndrome. For decades the bold rallying cry of an aggressive marketer has been: "when trench warfare competition sets in, don't just sit there, go out and create new markets."

Something disturbs me about that. It may be wasteful to pursue creation of unnecessary desires for new indulgences when bona fide needs cluster all around us. Let us instead concentrate on serving legitimate unserved market needs. I know that is difficult, but it strikes me as being sounder.

The fourth mistake is failing to shift mental gears from the management of volume to the management of value. A long term shift is setting in—a shift from wasteful overconsumption to an era of more careful allocation and use of resources, and more emphasis on quality. We are going to have to pay more attention to return on investment than to return on sales in a value-versus-volume era.

The fifth mistake is the failure to think politically. As we settle into a mature economy, the huge corporation lumbers into an increasingly hostile, closed environment. The corporate executive is a media mark to be cast as a pure villain. He is a safe target as a bad guy. The big corporation has trouble adapting to this new environment. The manager is trained to think economically and to leave political thinking to political people. But in the future, democracy is not going to permit a powerful corporation with spill-over impact on large sections of society to decide for itself totally what its job is.

Now that causes a lot of anxiety in executive offices, but it's a fact.

We can't hire a few lobbyists or consultants to give us a spray-on coat of political savvy. We must learn to think politically ourselves, or we are going to make terrible errors.

I move now to some strategies on how I think large corporations can adapt to a mature market.

Strategy #1: Let's not go out *creating* new markets, but let's serve existing needs.

Are real needs really being served?

Take the mail service. Couldn't private industry open up a whole new frontier in this area, and other government or municipal service areas?

Are the needs really met—at a viable price?

For the aged?

For the hospitalized?

For the home owner?

Listen—why catalog it all? Just go out in an imperfect world and look in any direction.

Strategy #2: Breakthrough productivity. This is an idea already turning brown with age. And yes, it's very, very difficult in the face of rising wages and diminishing work hours. But this is not a case of how difficult is it. This is a case of how absolute is the necessity. We *can* break the productivity barrier.

Strategy #3: The part-time top manager—believe it or not. I feel that, in a mature market, we're going to have to go into government—seriously. We've got to get *into* government to get a climate for success in a mature market. We're not going to do the job by sitting outside the legislatures and sending in our cards.

Strategy #4: Conservation and development of the most vital resource of all: people. I am particularly referring to the gifted and precocious—frankly, the geniuses—whom we're now wasting because we don't know where they are. And if we stumble upon one, sometimes we don't know how to encourage independent thought and creativity and merge him or her effectively into a corporate environment.

A tiny handful of people brought on the whole electric age. Another tiny handful brought on the whole electronics age. A small handful brought on the jet age that revolutionized flight.

Dr. Mueller of Westinghouse Defense Group was asked: "Of the 15,000 professional people in the group, what is the truly inventive core? A couple of hundred?" No. Five.

Today it is sheer chance whether this gifted minority finds its way to running a delicatessen or a corporation. We've got to find them, develop them. A mature economy *needs* them. We have to expand our vision to embrace their idiosyncracies and their great promise!

My last strategy is to have all managers constantly ask themselves one question—and then answer it. The question? "Do we deserve to be in business? And if so, why?"

Some people say the mature market is an ecology in which the mature corporation is an endangered species. I don't deny it. They say we're going down the inevitable road—just as by the laws of nature a vigorous pond full of life and plants eutrophies and becomes a meadow.

Some say eutrophy is death. But is it? It's only a change of form, isn't it? From a lake to a meadow. Is a meadow dead? All the nutrients are there, but in a different form. It's a case of adapting to the meadow.

School Receives $100,000 Grant to Establish the Henry Ford II Scholar Award

The Graduate School of Business Administration at the University of Michigan is the recipient of a new $100,000 grant to endow the annual Henry Ford II Scholar Award for Highest Academic Achievement in the Business School. Income from the endowment will be used to give an annual cash award to the student with the best performance during the first year of graduate work. The Award is granted wholly on the basis of merit regardless of need, Dean Bond emphasizes.

Seven other business schools in the country—including one other public institution—have been chosen to receive the $100,000 endowments. They are Stanford, Harvard, Chicago, Wharton, Carnegie Mellon, Sloan School of Management at MIT, and UCLA.

Chosen to receive the Award for the 1978–79 academic year is Pat Wilkie of Redford Township, Michigan, whose grade point average during the first year of his MBA studies here was 8.55. (an average of 8 is straight A, and 9 is straight A+.)

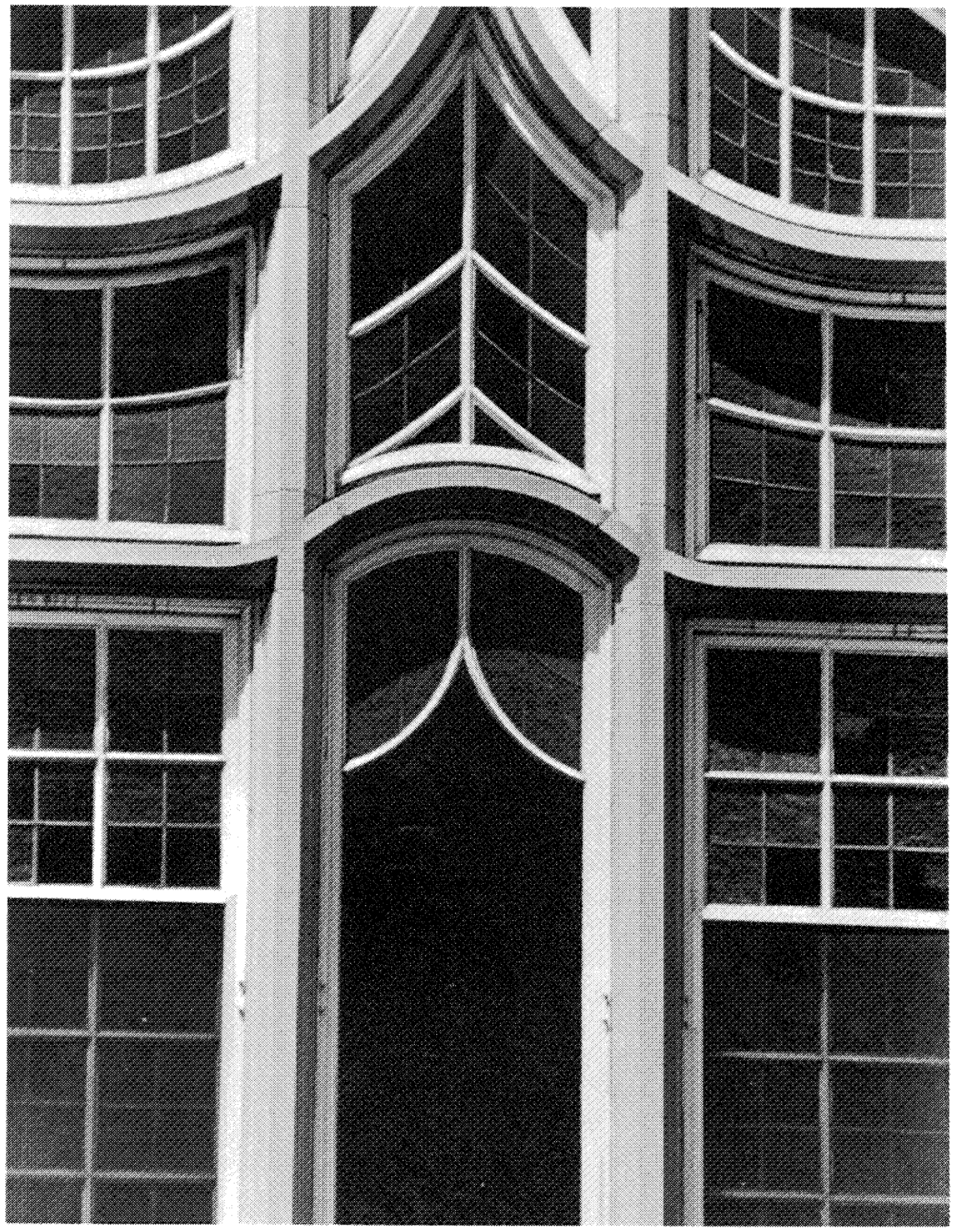
After receiving his BBA degree from The University of Michigan, Pat worked as an assistant accountant at Peat, Marwick, Mitchell & Company for 15 months. He passed the May, 1976 CPA exam, and was a runner up for the Paton Award that year. At the same time, he was pursuing MBA studies in the evening program, but says he found "school becomes sort of secondary when you're working and can't give full attention to your studies. I didn't like that attitude, so I decided to quit work and go to school full time." After receiving his MBA, Pat plans to go on for his Ph.D. in accounting with a specialty in taxation, and then hopes to teach in a major university. What, we asked, is the secret of his academic success? "I really like the subject matter I'm in," he says, but adds with a grin, "the *real* secret of my success is: I study a lot."

← Pat Wilkie, recipient of the 1978–79 Henry Ford II Scholar Award at the Business School, is pictured as he comes from class in the Paton Accounting Center.

Guess Where?

The University campus offers a great deal to the person who likes architecture, and anyone on a stroll who pays attention to architectural details will be richly rewarded. From the gothic stone dignity of the law school to the beautiful lines of the Saarinen-designed music school, University buildings offer much to delight the eye. On these pages we present some architectural details from around campus, and invite you to guess where they are located. Buildings from both North and Central campus are included in our quiz. Answers are on page 14 and 15.

Photos by Virginia Geren



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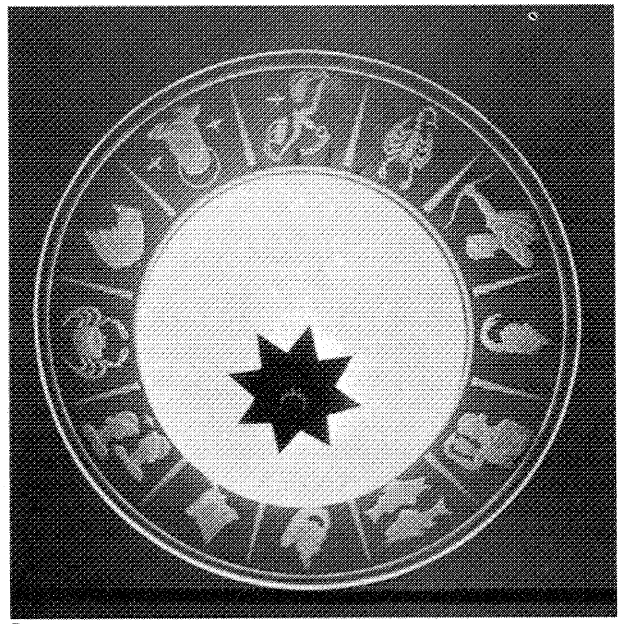

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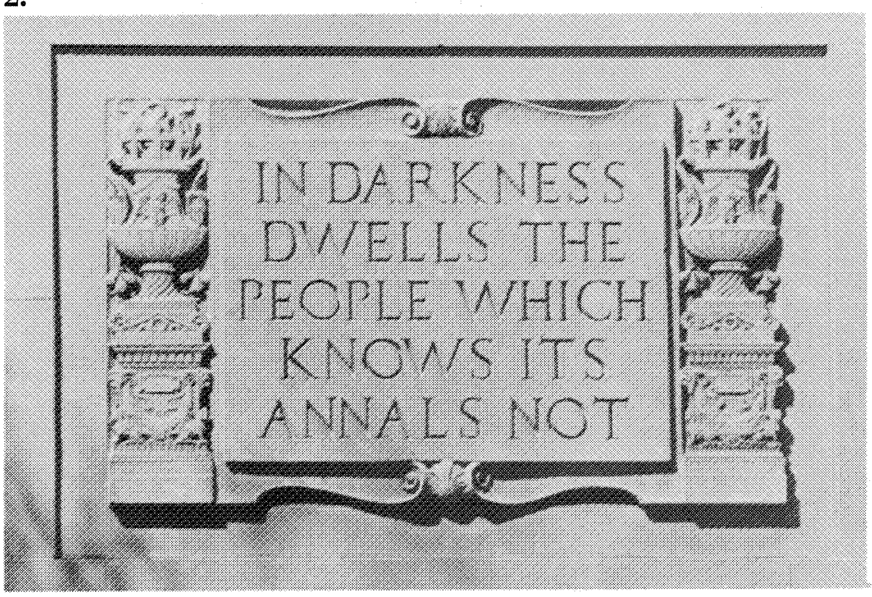

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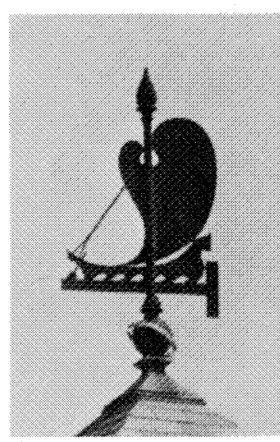

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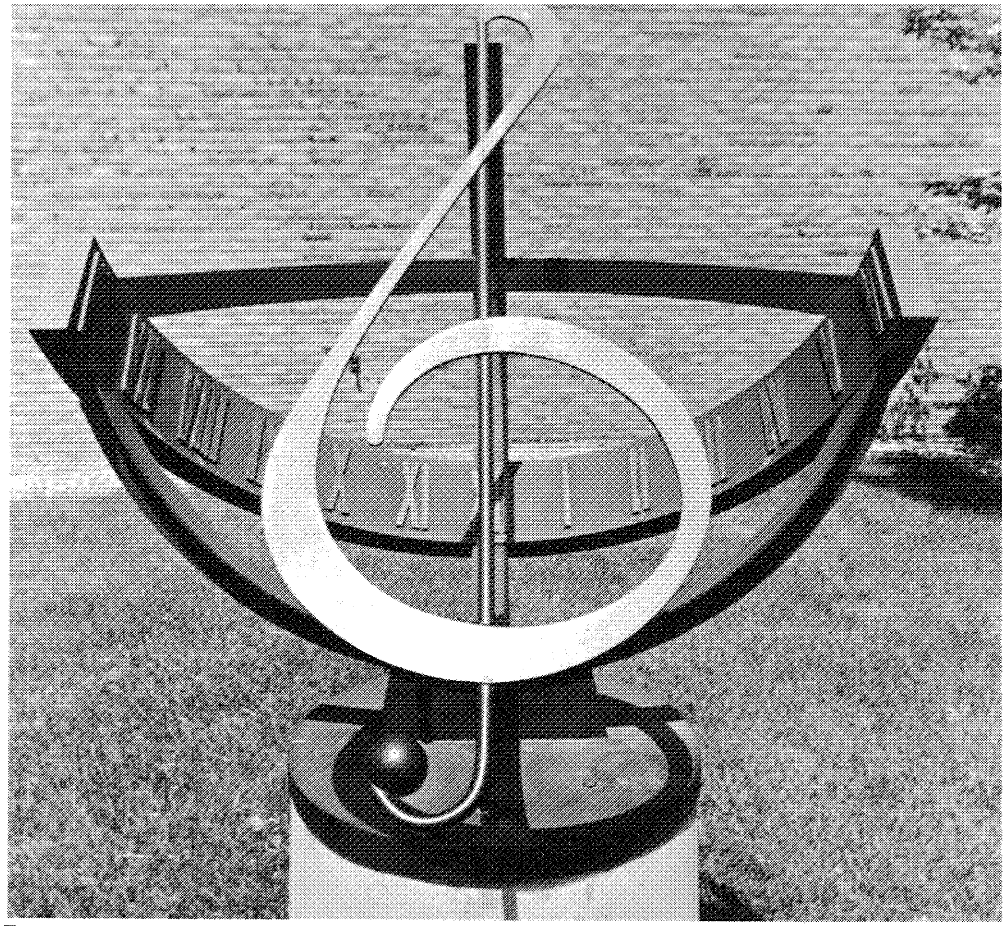

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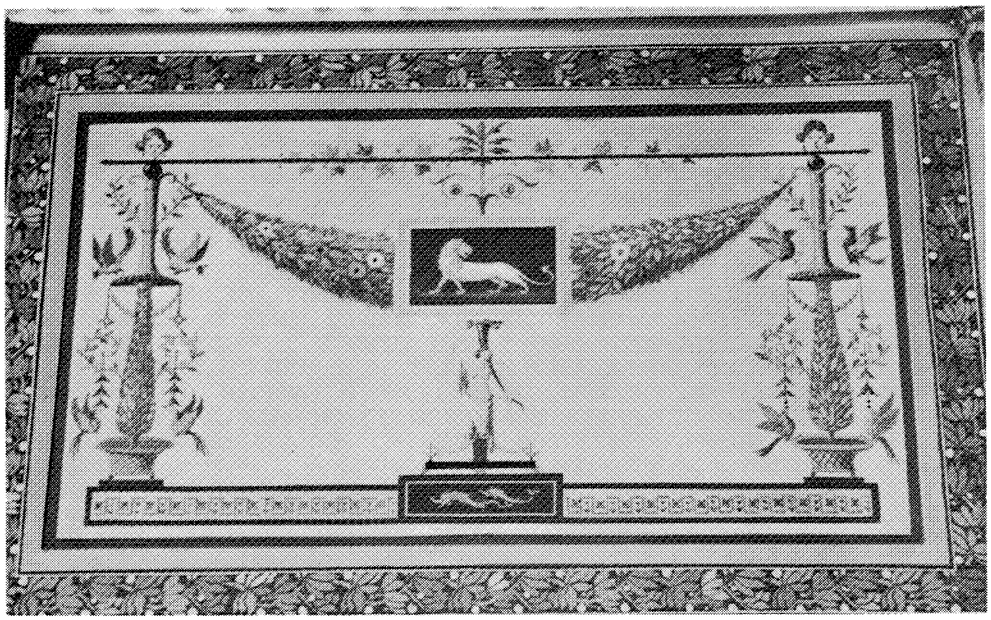

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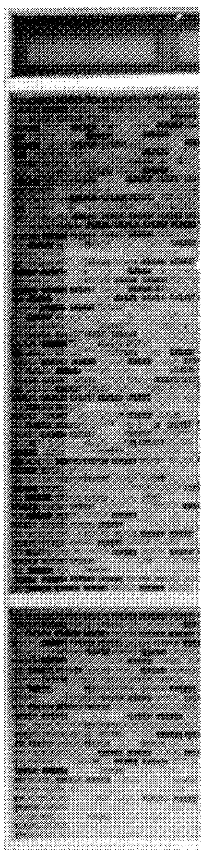

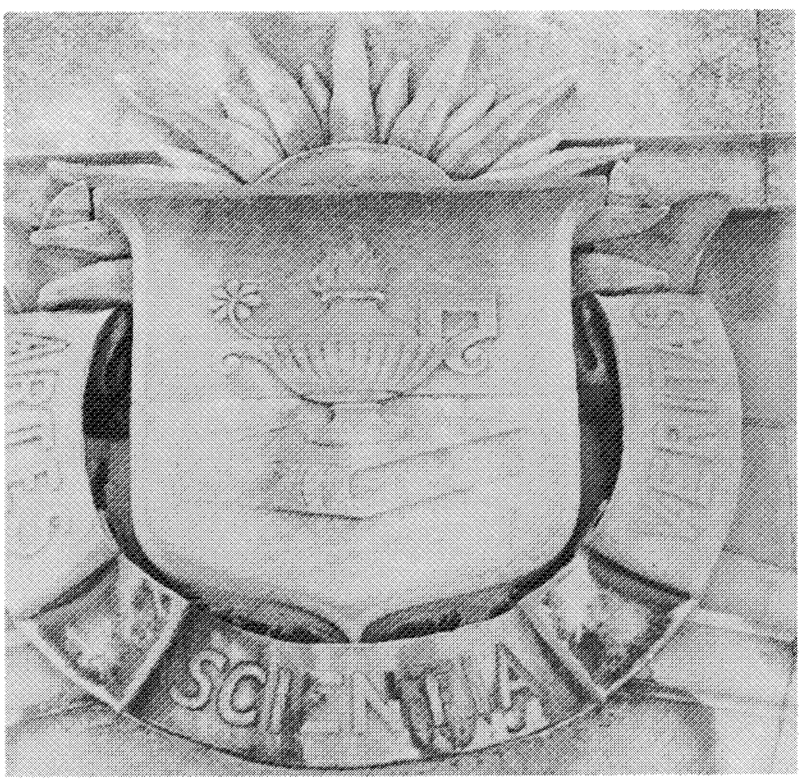

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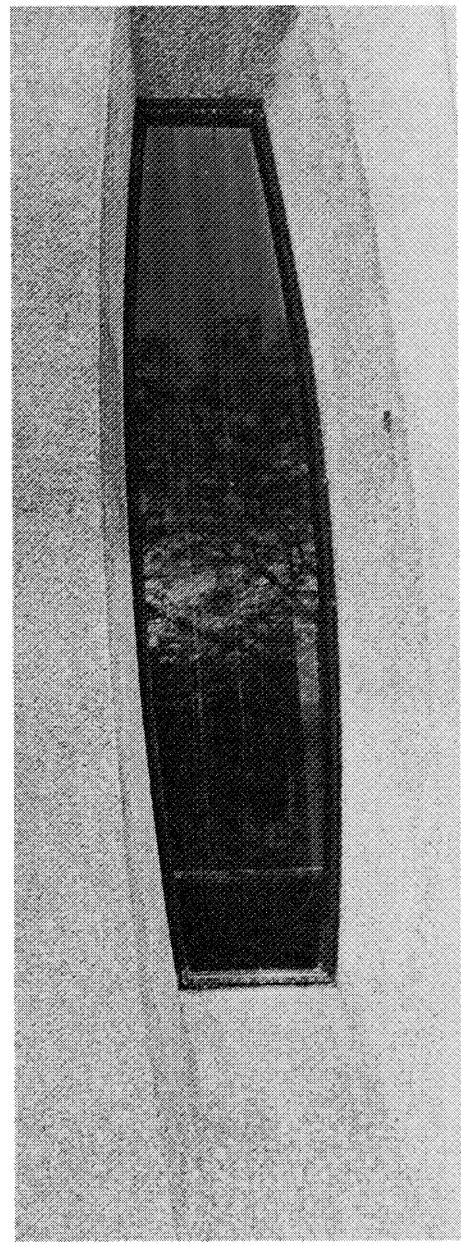

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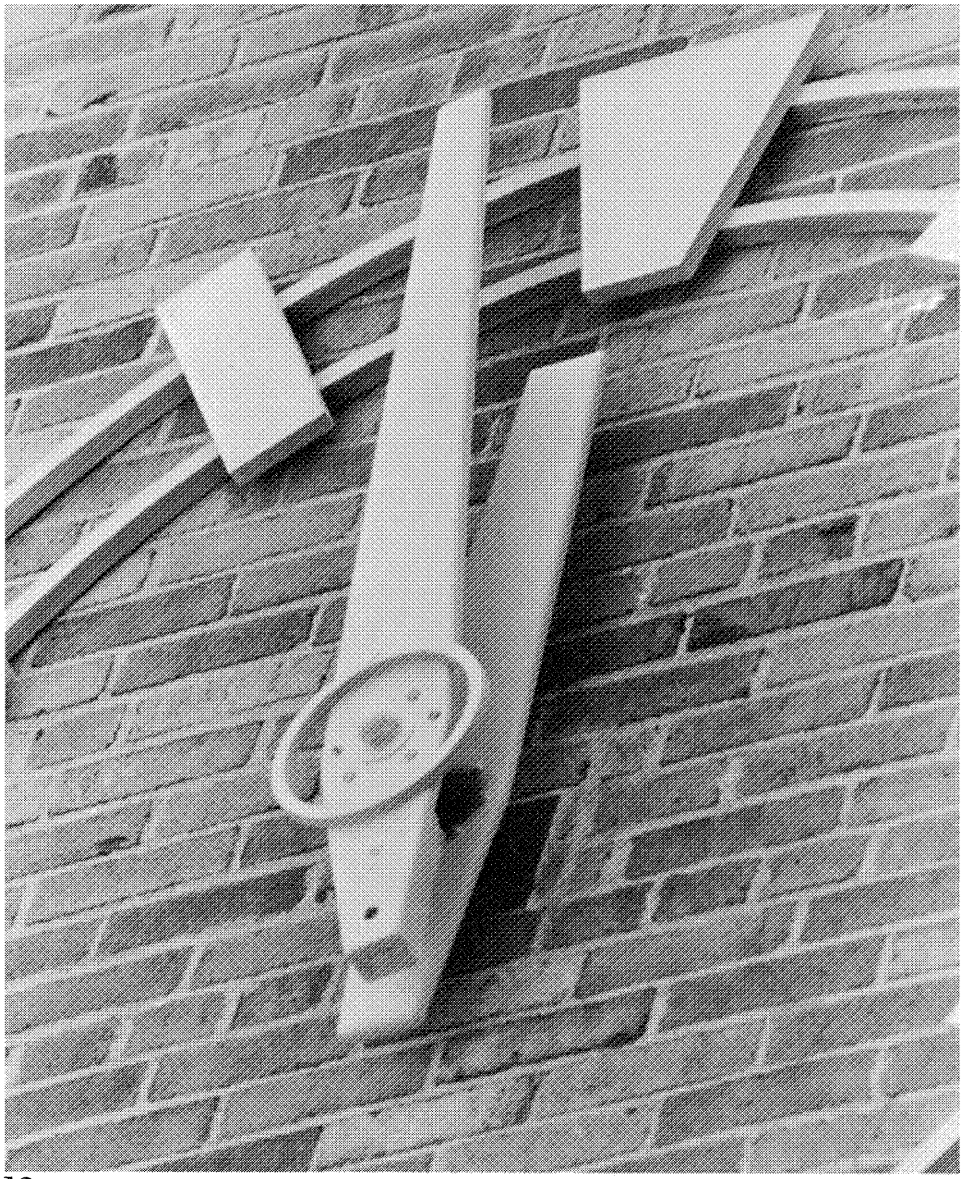

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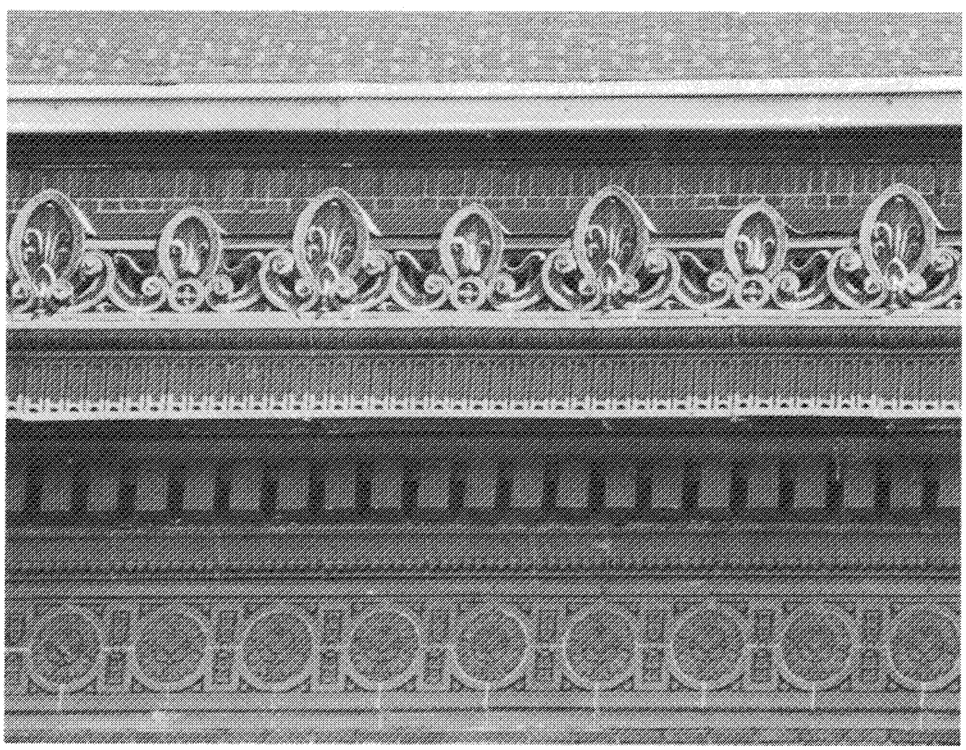

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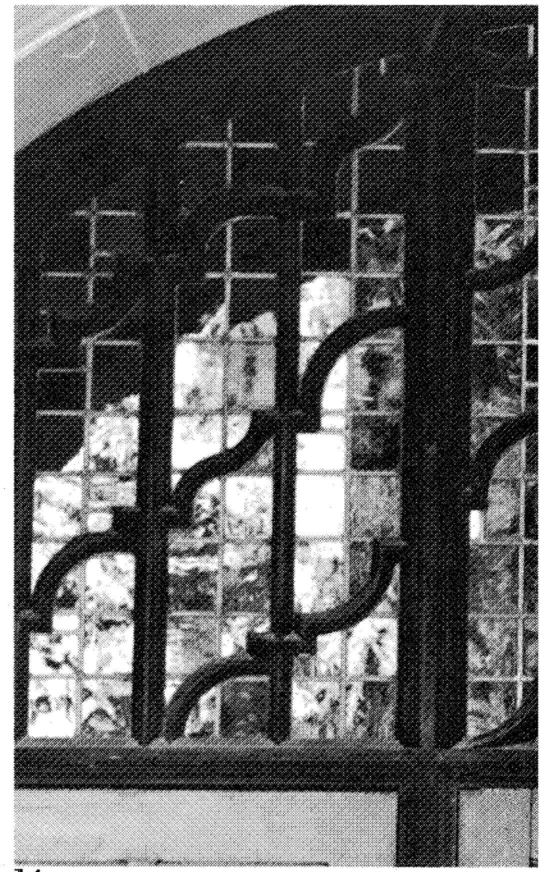
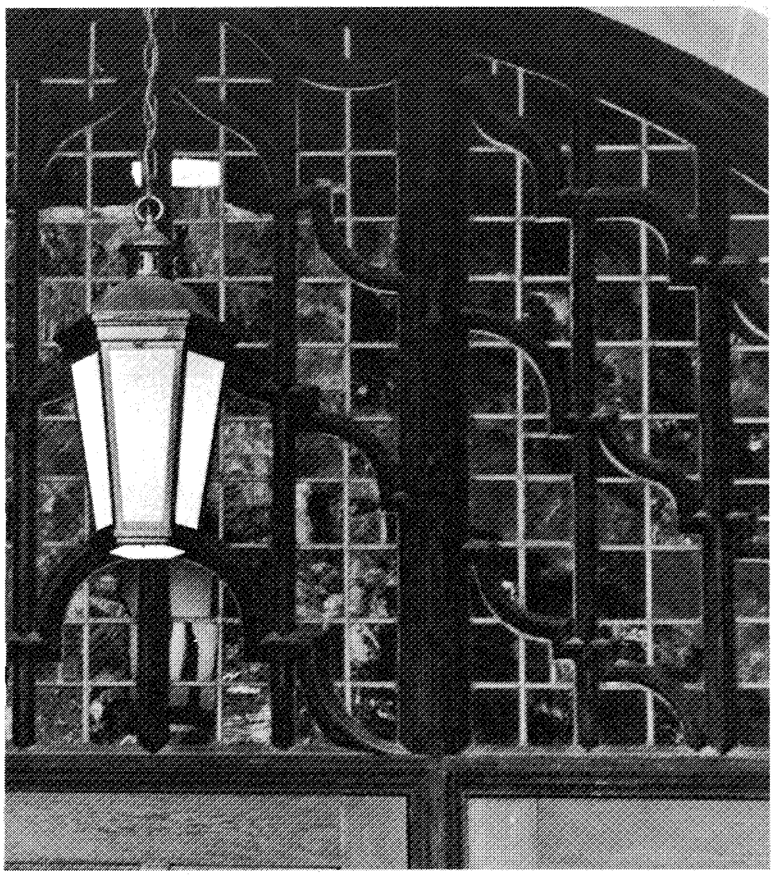


14.

There!

1. Windows at the Michigan Union.
2. Cupola on top of the Denison Arch of the West Engineering Building, which was designed by architect Albert Kahn, and named in honor of Charles Simon Denison, a professor at the School of Engineering.
3. The zodiac light in front of the elevator on the first floor landing of the Rackham Building.
4. Inscription on the outside of the William L. Clements Library.
5. Weathervane on top of the old Art and Architecture Building across from the Business School building. The weathervane was designed by Emil Lorch, first Dean of the School of Architecture, and is called "The Ship of Art." It includes a palette and brush and a T square. When the members of the School of Art and Architecture moved to the



15.

(Answers to Guess Where Quiz)

new building on North Campus, they would have liked to have taken the weathervane with them, but it is made of copper, is extremely heavy, and how on earth do you get it *down?*
6. This gargoyle used to reside on the north side of the old Art and Architecture building, where it overlooked the Martha Cook Tennis Courts, but it has now been moved to the atrium courtyard of the new Art and Architecture building on North Campus.
7. The bronze sundial just outside the Recital Hall entrance of the Music School building on North Campus. The sundial was presented to the Music School in 1971 in commemoration of the seven U–M alumnae who founded Sigma Alpha Iota, international music fraternity for women, at the U–M in 1903. It keeps accurate time when the sun is out, but it doesn't know about daylight savings time.
8. One of several ornate panels "done in the Pompeiian style" by Thomas di Lorenzo of New York to adorn the lobby of the old Graduate Library, designed by architect Albert Kahn and dedicated in January, 1920.
9. A section of the windows and brickwork of the Administration building on Thompson Street.
10. Decoration on the Natural Resources Building.
11. A window at the Institute of Science and Technology on North Campus.
12. Clock on the front of the Business Administration building.
13. Ornate work on Hill Auditorium.
14. Light above entrance to the Michigan League Building.
15. One of the many faces carved in stone that decorates the Law Club section of the Law Quadrangle. A story is told that the face of the then Dean of the Law School was one of those depicted in stone while the School was being built. When Mr. Cook, donor of the School, heard of this, he sent a telegram forthwith to the head workman on the job ordering the immediate demolition of the aforesaid gargoyle, as Cook did not propose to have any current members of the law faculty memorialized in stone. The master workman was following Cook's orders when a law professor was strolling across the quadrangle. As he got close to the building, the stone ear of the Dean fell at his feet. The professor picked it up. He looked at it. He put it in his pocket, and observed, "Now I shall have the ear of the Dean on all occasions."

How Should We Control A Public

There is a fundamental conflict in public policy currently apparent in political and governmental circles with respect to the health care industry. The dilemma is this: should a free competitive market be the means to reverse the constantly rising costs, or should pervasive governmental regulation be the mechanism for controlling costs of health care?

Costs of medical and hospital care continue to escalate in excess of the Consumer Price Index, and a constantly increasing percentage of the Gross National Product is devoted to financing the health of the nation. Employers who pay the bill for employee health care benefit programs are well aware of the cost of the benefits, and these programs are frequently a matter of great importance to both employers and unions in the collective bargaining process.

Less frequently are the employees—the patients—concerned about the costs of health care since they do not often pay directly or personally the physician, the hospital, or other provider of care. The magnificent, voluntary comprehensive third party payment arrangements developed by Blue Cross–Blue Shield, and, to a lesser extent, by the commercial insurance industry, together with employer financed benefit programs have, in effect, insulated the patient from concern about costs. Moreover, patients have been told by both government and by private professional organizations that access to quality health care is a "right," something to be expected and to be provided by employers or government. But how can the nation provide comprehensive health care to all at reasonable, justified cost? Is the eventual answer to be found through the mechanism of a free market or through governmental regulation?

Congress chose the latter—governmental regulation—through the enactment of the National Health Planning and Resources Development Act of 1974 (Public Law 93-641). But more recently, the administrative branch of government (specifically the Federal Trade Commission, The Department of Justice, and the Attorneys General of certain states) has opted in favor of the former—a competitive market—by increased enforcement of antitrust statutes. Meanwhile, the courts are backing both the Congress and Administration by upholding regulatory legislation as constitutional while simultaneously supporting both governmental and private actions seeking application of antitrust law to the health care industry.

Governmental Regulation in Health Care

The National Health planning legislation passed by Congress creates multiple levels of health planning agencies—local, state, and federal. Space does not permit a detailed description of these agencies, their statutory functions and their interrelationships. But at the heart of the administrative, regulatory structure are regional Health Systems Agencies. These agencies are to establish, annually review, and amend a health systems plan to improve the health of the residents of the region, enhance accessibility to health care, restrain increases in costs of care, and prevent unnecessary duplication of health care resources. Priorities of the legislation are established on the premise that costs of health care can be brought under control by reducing the current oversupply (in many geographical areas) of hospital beds and facilities, by controlling over-utilization, by improving managerial decision making, and by adoption of uniform cost accounting.

Two key aspects of the legislation are the requirements that "appropriateness" of institutional health services must be reviewed by the planning agency every five years; and a state certificate-of-need must be obtained before federal funds can be received for capital development of new health-care resources exceeding a specified monetary expenditure. Failure on the part of an institutional provider to obtain a certificate-of-need can result in loss of Medicare–Medicaid funds and perhaps, also, depending upon state law regulating Blue Cross and/or administrative policies of the private Blue Cross plans, loss of reimbursement from this third party source. Certificate-of-need and appropriateness reviews mean that institutional providers of care can no longer

Health Care Costs? Policy Dilemma

by Arthur F. Southwick
Professor of Business Law and Hospital Administration

expand facilities and equipment or services, or even continue existing services, without justification—if they are to be reimbursed by government and/or Blue Cross. Although, as a legal matter, planning agencies have not as yet been granted power to actually close health care facilities or force elemination of services as an outcome of appropriateness review, nevertheless, simply raising the patient's hospital bill will no longer be a practical, workable answer.

In sum, public policy expressed by Public Law 93-641 is that the means to control inflationary health care costs is through planning and regulation, not through the mechanism of a free competitive market. At least four fundamental implications emerge from an analysis of the legislation. First, the theoretical "consumer"—not the physician, hospital administrator or institutional director—is legally in majority control of the planning system by virtue of membership composition of the planning agencies. Second, voluntary planning among institutional providers for the provision of health services has been abandoned; third, as a uniform cost accounting system is developed the basis is formed for governmental rate control, akin to public utility regulation (a few states have already enacted legislation providing for hospital rate control or review); and, finally, each health care institution will have to justify and defend its capital expenditures, its facilities and equipment, the character, quality, and frequency of services provided, and, indeed, its continued existence.

Although the legal issues presented by the health planning legislation are many and varied, the federal courts so far have sustained the basic constitutionality of the statute. Since the mid-1930's it has been clear as a legal matter that the U.S. Constitution permits governmental regulation of any activity of business, including prices charged, so long as there is a reasonable, rational relationship to a legitimate objective to be attained. Containment of costs of health care is without question a legitimate objective in furtherance of public welfare; control of institutional health care facilities, equipment, personnel, utilization, and quality is a reasonable means of achieving the objective. Similarly, several courts, both state and federal, have upheld state certificate-of-need statutes.

Competition in Health Care

The only recorded legal dissent to planning legislation was announced by the North Carolina Supreme Court in 1973 when it held that state certificate-of-need legislation was unconstitutional under the North Carolina Constitution. Notwithstanding respect for other courts which had ruled previously on similar state statutes, the North Carolina court observed as follows: "In ordinary businesses it has been the common experience in America that competition is an incentive to lower prices, better service, and more efficient management. The record discloses no reason to suppose that the same is not true in the practice of the healing arts and in the operation of institutions for that purpose. . . . While in many respects a hospital is not comparable to an ordinary business establishment, we know of no reason to doubt its similarity thereto in its response to the spur of competition."

Somewhat the same philosophy is evident at the Federal Trade Commission and the Department of Justice, contrary to the philosophy of Congress and the Department of Health, Education, and Welfare. Business persons are generally familiar with antitrust legislation. The purpose, of course, of antitrust laws, both state and federal, is to maintain a free, competitive market in the provision of goods and services.

Section 1 of the Sherman Act prohibits contracts, combinations,

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About the author: Professor Southwick has long been interested in the legal aspects of hospital administration and health care, and has written and spoken extensively on these topics. He holds a joint appointment in the Graduate School of Business Administration and the School of Public Health, and is the author of a new book, *Law of Hospital and Health Care Administration* which was published in August by Health Administration Press of the U–M School of Public Health.

and conspiracies in restraint of trade. Thus, price fixing and territorial allocations of market are prohibited. Section 2 of the same Act prohibits attempts and conspiracies to monopolize. The Clayton Act, including amendments known as the Robinson-Patman Act, prohibits exclusive dealing arrangements, tie-in sales, and discriminatory pricing between different purchasers of commodities of like grade and quality without cost justification. Both statutes make illegal a group boycott or concerted refusal to deal. The third major Federal statute is the Federal Trade Commission Act which proscribes unfair methods of competition and unfair or deceptive acts or practices in commerce.

Some restraints of trade are conclusively presumed to be illegal and are thus *per se* violations. In this category are group boycotts, allocations of markets, and agreements on price. When not a *per se* violation an alleged restraint is analyzed in terms of nature, purpose, and effect on a case by case basis. This judicial analysis is known as the "Rule of Reason."

The Department of Justice enforces the Sherman and Clayton Acts with both criminal and civil actions. Jurisdiction of the Federal Trade Commission extends to enforcement of the Clayton Act and the Federal Trade Commission Act with authority to promulgate regulations defining acts or practices constituting unfair or deceptive competitive practices and to enter cease and desist orders. Moreover, and most significantly, private litigants enforce antitrust statutes by actions to recover treble damages or to enjoin a violation. Costs of these suits, including attorney's fees, are assessed against the defendant.

"Priorities of the legislation are established on the premise that costs of health care can be brought under control by reducing the current oversupply of hospital beds and facilities, by controlling over-utilization, by improving managerial decision making, and by adoption of uniform cost accounting."

A Fundamental Conflict

The fundamental conflict or dichotomy of governmental policy between health care planning legislation, on one hand, and antitrust laws, on the other, is readily apparent. The National Health Planning and Resources Development Act, including its mandate that all states enact certificate-of-need statutes by 1980 as a condition for receipt of federal funds, contemplates joint activity by health care institutions intended to contain costs. Although the Act does not specifically *require* joint activity among providers, as distinct from regional planning, it is difficult to ascertain how the national priorities, set forth previously, can be realized without discussion and agreement among institutions, proprietary as well as non-profit.

Specifically contemplated and encouraged by the planners, for example, are agreements between two or more hospitals allocating clinical services. Since it is unduly expensive and wasteful for both hospitals A and B to duplicate services, each of which is underutilized, it makes economic and professional sense in terms of quality care for A to provide for example all of the community's need for obstetrical services while B furnishes the sophisticated equipment and staff for open-heart surgery. A further example of sound planning: not all hospitals should maintain a full scale emergency care department with all of the expensive equipment and professional staff that is technologically available to modern medicine. In short, planning health services requires rationalization of resources both in terms of cost and quality of care; development of multi-institutional systems that can coordinate and consolidate services; and geographical integration of institutions. Yet in the commercial world such activities among competitors would clearly be *per se* violations of antitrust laws.

Further, planning laws contemplate extensive development of shared services between or among health care institutions, again in furtherance of cost containment. For example, two or more hospitals may agree to share laundry or data processing services; they may engage in group purchasing arrangements. If then, another hospital is excluded from the shared service plan, the question of boycott is presented.

Unquestionably, as health care planning matures, there will be mergers of institutions in many communities. A relatively small, perhaps inefficient hospital will, for example, either merge with another hospital or in some cases be forced to discontinue operation as a result of third-party reimbursement mechanisms. Does a merger substantially lessen competition or tend to create a monopoly? If so, an antitrust violation is conceivable.

Further, voluntary rate review, even the exchange of information on costs and prices, among competitors in a given industry, presents serious antitrust issues.

To further highlight the conflict in policy: the national planning legislation does not contain a specific statutory exemption from antitrust. Until recently the hospital industry and medical profession were free from concern about restraint of trade statutes for three reasons. First, the relative absence of joint activity in a highly fragmented industry did not raise anti-competitive issues, nor generate legal actions. Second, it was generally assumed by legal counsel and by management that health care institutions and practitioners of medicine were either statutorily excluded from antitrust legislation or judicially exempt from the laws. Finally, the patient population—and private reimbursement mechanisms (primarily Blue Cross–Blue Shield) were perfectly willing to pay the bill for health care on a retrospective cost-reimbursement basis. The hospitals and the doctors had, in effect, been given a blank check.

An erosion of statutory exclusions and judicially recognized exemptions from antitrust legislation has occurred in recent years. In short, the reach of antitrust legislation has been significantly extended, largely through the process of judicial decision, with the result that health care providers are discovering that they, indeed, could be the target of civil and even criminal actions. Thus, while expected to plan facilities and services on one hand, providers are now being told, on the other, that they can be in violation of the antitrust laws.

One by one, the traditional defenses available in an antitrust suit have fallen by the wayside or been significantly circumscribed. Four such defenses will be noted.

Statutorily, the Federal antitrust laws apply only to restraints on interstate "trade or commerce," as distinct from intrastate commerce, or to restraints which substantially affect interstate commerce. Thus, two jurisdictional defenses emerge: first, the alleged violation did not affect interstate commerce and, second the provision of health services is not a "trade." Both defenses have been recently significantly narrowed by the U.S. Supreme Court. In *Hospital Building Co. v. Trustees of Rex Hospital* officials of Rex Hospital in Raleigh, North Carolina presented evidence before the local planning body in a certificate-of-need hearing that proposed expansion of plaintiff's hospital was not needed in the community. Plaintiff, a proprietary institution, whose parent corporation was from out-of-state, alleged an illegal boycott. The Supreme Court denied the defense argument that defendants' activities did not substantially affect interstate commerce and returned the case for a trial on the merits. Plaintiff established that it purchased drugs and supplies, derived revenues, and obtained financing from out-of-state sources. Litigation on the merits is currently pending.

Similarly, the court in *Goldfarb v. Virginia State Bar* dispelled any notion that the "learned professions" are exempt from antitrust on the basis that the practice of a professional person is not a "trade or commerce." In *Goldfarb* the issue was whether minimum fee schedules promulgated by the organized legal profession constituted an antitrust violation. Indeed, the court said, minimum fee schedules established by professional persons do violate the law. Thus, it may be assumed that voluntarily adopted price setting or review among competitors, even if the motive is to contain costs, constitute price fixing. Some state hospital associations, for example, motivated solely by good intentions of cost containment, have voluntarily initiated programs to exchange cost information and review rates. These programs, if continued, are thus open to antitrust allegations. The Department of Justice has actions pending against professional societies which have promulgated "relative value scales"; simultaneously, the Federal Trade Commission proceeded against several societies which were employing value scales and obtained consent orders prohibiting further use. By establishing comparative values for varying medical and surgical procedures—and by then employing a monetary conversion factor—the scales established professional fees.

The third defense to an antitrust action is the "state action" argument. Restraint of competition by government is, of course, exempt from the antitrust laws. Thus, when the California legislature enacted a statute restricting supply of certain agricultural products and increasing prices the plaintiff, a producer and dealer in raisins, was unsuccessful in his suit to enjoin the program. This is the often cited 1943 Supreme Court case of *Parker v. Brown*.

Recently, the courts have been actively narrowing the "state action" exemption, thereby ruling that allegations of antitrust violations must be tried on their merits. In *Goldfarb* the Supreme Court held that the bar association was not a state agency and that its activities restraining a free, competitive market by promulgation of a minimum fee schedule were not mandated by the state. Thus, "state action" was not a defense.

More significantly, in *Cantor v. Detroit Edison* the Supreme Court determined that the utility's long standing program of providing "free" light bulbs to customers could be an illegal tie-in sale even though costs of the program were built-into the rate structure approved by the Michigan Public Service Commission. Approval by the Commission was not equivalent to a requirement by government that the utility supply the bulbs.

A third leading recent case interpreting the "state action" exemption is *City of Fairfax v. Fairfax Hospital Association* in the 4th Circuit Court of Appeals. There were two hospitals in the county; hospital A agreed to purchase the assets of

"Planning health services requires rationalization of resources both in terms of cost and quality of care. Yet in the commercial world such activities among competitors would clearly be *per se* violations of antitrust laws."

hospital B. To finance the transaction the County of Fairfax created by law an industrial development corporation authorized to issue tax-exempt bonds. The IDC would then use the bond proceeds to buy hospital B and in turn lease the facilities to hospital A. The City of Fairfax and a group of physicians were successful in their suit to enjoin the transaction and obtain a trial on the merits of their claim that the merger would decrease competition and increase prices to the patients. Two points are worthy of emphasis: the proposed sale had a substantial effect upon interstate commerce since both hospitals purchased supplies and received revenues from out-of-state and, secondly, the "state action" defense was not available since the sale was not *mandated by the state legislature*. Accordingly, by current judicial interpretation, allegations of antitrust violations cannot be defended on the basis of governmental action unless the defendants' activities are actually required by law of a sovereign *state government*.

Although the Health Planning Act requires planning, it does not actually mandate joint action by institutional providers. Certainly, though, joint activity in the form of shared services, mergers, and multi-institutional hospital systems coordinating and consolidating services are contemplated and encouraged. Moreover, the area-wide Health Systems Agencies are required to recommend a health plan to a state planning agency; it is difficult to comprehend how area and state plans can be developed without anti-competitive activity among providers of health care. Thus, executives in the health industry are being told to eliminate excess capacity, control demand, improve managerial efficiency, and rationalize facilities and services. Simultaneously, both individual practitioners of the healing arts and health care institutions are to an increasing extent the targets of antitrust claims. Moreover, as illustrated in both the *Rex* case and *Fairfax,* there is discord within the health industry generated by the mandates of planning and cost containment, on one hand, and the liberalized interpretation of antitrust on the other. This is to say that physicians are bringing private suits against other physicians and hospitals as in *Fairfax;* hospitals are suing hospitals (and, individually, executives of hospitals) as in *Rex*.

To be considered finally here is the exemption from antitrust known as the Noerr-Pennington Doctrine, a name derived from two leading cases. Concerted efforts to affect governmental policies or obtain enactment of favorable laws and regulations do not violate antitrust laws since the First Amendment's guarantee of freedom of speech is a paramount right. But as with all doctrines there is a limitation: where activity to influence governmental action is a "sham" to interfere with a competitor's business there is no protection from antitrust claims. Thus, there was no protection for physicians from an alleged *per se* boycott when private obstetricians refused to provide back-up services for an outpatient abortion clinic, at least, in the absence of defendants' ability to show "good faith." Similarly, when a professional association sought to have the state of Illinois deny certification for a postgraduate course in orthodontia offered by a proprietary school, a possible antitrust violation occurred since the activities went beyond efforts to maintain professional standards and beyond a straightforward attempt to influence governmental action.

Currently, then, in the absence of a clear-cut statutory antitrust exemption and without a clear *mandate* from federal or state government requiring joint activity lessening competition, the burden is upon the health care industry to establish that planning is motivated solely to benefit the public and is not undertaken for any commercial purpose. Health care practitioners and institutions must be prepared to establish the merits of their activities.

Eventually, Congress will be called upon to settle the fundamental conflict among economists, attorneys, and academicians. The question is this: should allocation of resources in the health care industry be determined by direct government regulation or by voluntary decisions in the market? There are those who maintain that a regulatory approach to the rendition of health services and cost containment will inevitably fail and that the solution is best found in a "free-market" approach. For example, Clark C. Havighurst, professor of law at Duke University, predicts that governmental regulation of costs will fail in the absence of a forthright political decision to ration health care resources and that such a decision is unlikely to be made. He supports his analysis by reference to economic models in other sectors of the economy where regulation has "failed."

In contrast, others insist that a free market simply does not and can not exist in the health industry. They maintain that the normal market forces of supply and demand do not interface; rather, increase of supply of health services simply increases demand which then increases use and engenders uncontrolled expenditures. Further, these persons note that the consumer of health care does not make decisions based upon cost and quality; that third-party reimbursement mechanisms, including Medicare-Medicaid pay on the basis of retrospective costs; that practicing physicians prescribe place and mode of care regardless of costs; that hospitals can simply raise prices without fear of losing patients to a lower priced competitor down the street. These persons point to the "success," for example, of Maryland's Health Services Cost Review Commission which has been establishing hospital rates since 1974 on the basis of prospective reimbursement. This state regulatory law was sponsored by and continues to enjoy the strong support of the state hospital association. Thus, they argue that regulation is the key to the national goal of "equal access to quality care at reasonable cost," as proclaimed by Public Law 93-641.

At the moment, society—and law—are somewhere in the middle of the "free market"-regulatory debate.

Among Ourselves

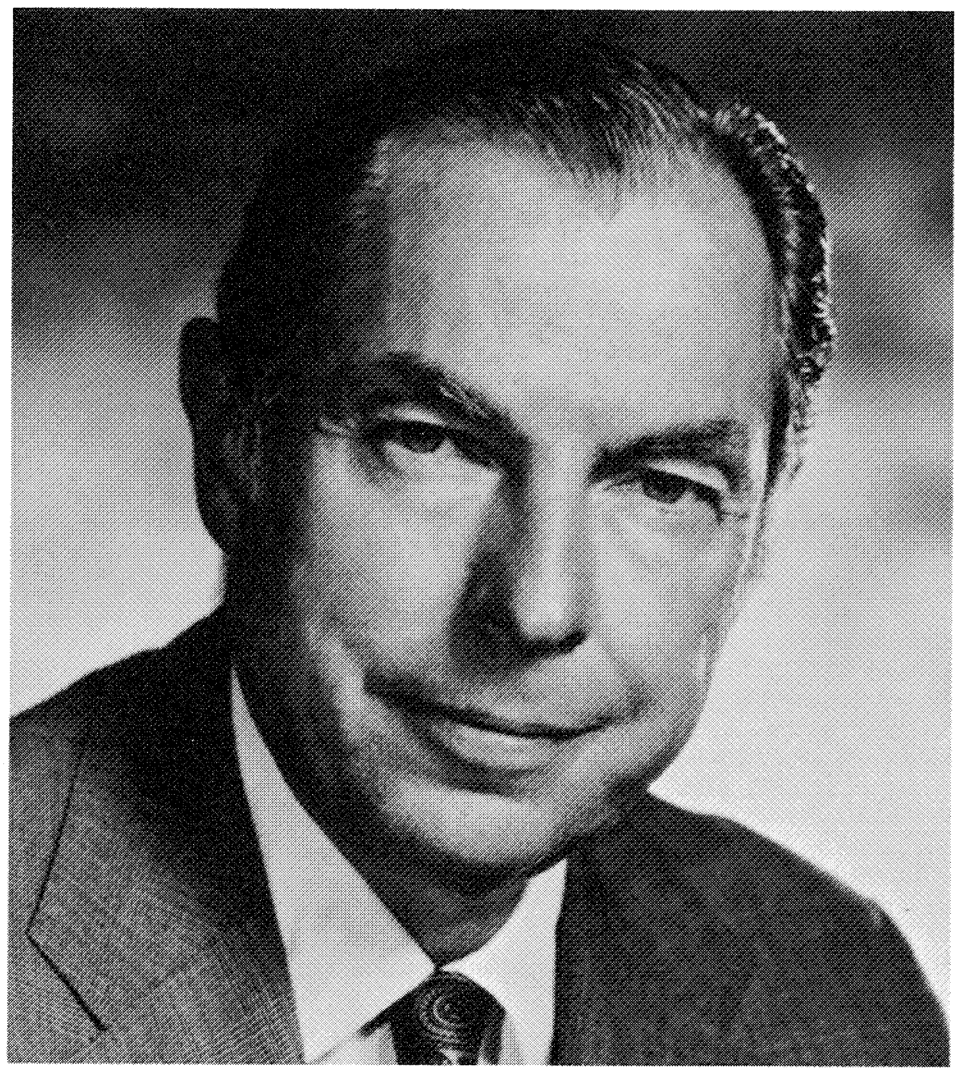
An informal collection of items, including news of the faculty, of alumni, and of the school, and assorted other information, opinion or comment that we think will interest you.

Business Leadership Award Given to Walter B. Wriston

Walter B. Wriston, who has been called one of the most influential bankers in the United States, was the recipient of the 1978 Business Leadership Award of the Graduate School of Business Administration on Friday, September 22, at ceremonies in Hale Auditorium.

Wriston, chairman and chief executive officer of Citibank, New York's largest commercial bank, and of its parent corporation, Citicorp, rose from a junior inspector at the bank to its president in twenty-one years. He is, perhaps more than any other man, responsible for the recent revolution that has taken place in American banking.

In 1961, shortly after he had become executive vice-president of First National Bank (now known as Citibank), Wriston and another executive developed a new and revolutionary financial instrument: the negotiable certificate of deposit which the bank proposed to offer to corporations in denominations of $100,000 or more at interest rates 1.25 percent to 1.75 percent above those available to the average saver on passbook accounts. Designed



Walter B. Wriston, winner of the 1978 Business Leadership Award to attract the large amounts of surplus cash that corporations had on hand from time to time, CD's proved a big success, and other banks quickly followed. Because the CD enabled banks to outbid other financial institutions for money, it "totally changed the face of banking," according to a *Business Week* analysis of September 15, 1973.

In his first year as president of the bank (1967) Wriston presided over a massive corporate reorganization. An even more important development for Citibank and subsequently for the entire banking industry was the formation of the First National City Corporation (Citicorp), a holding company, which took over the bank's ownership late in 1968. Although hundreds of smaller banks had established holding companies for the same purpose, Citibank was the first of the big banks to try the scheme. Within months, seven of the nation's ten biggest banks followed suit. Wriston, who played a key role in the creation of Citicorp, was named its first president.

In 1970, he became chairman and chief executive officer of both Citibank and Citicorp. Under his leadership, Citibank has redefined the function of banking, pioneering the conversion of banks into total-service financial agencies through international expansion, computerization, and diversification. "Our corporate objective is to provide every worthwhile service everywhere in the world we can legally do it," Wriston said recently, "and do it at a profit."

After receiving his B.A. degree with distinction from Wesleyan University in 1941, Wriston took his M.A. at Tufts University's Fletcher School of International Law and Diplomacy, and then signed on with the State Department as a junior foreign service officer. Following a four year tour with the U.S. Army during World War II, he joined Citibank in 1946 as a junior inspector in the Comptroller's division. He was assigned to the national division of the bank in 1949 and served in the division's Canadian and transportation districts for seven years. In 1956, he joined the bank's overseas division, heading the European district for three years. In 1958 he was named a senior vice president and the following year he was made head of the overseas division. In 1960 he was appointed executive vice-president. He became president of the bank in 1967, president of the corporation when it was formed in 1968, and assumed his present position in 1970.

Wriston is a director of General Electric Company, J. C. Penney Company and The Chubb Corporation and a trustee of The Rand Corporation. He is also a member of the Business Council, a director of the Economic Development Council of New York City, Inc. and a member of the Advisory Committee on Reform of the International Monetary System.

He is also a member of the Clearing House Committee, member of the Board of Visitors of the Fletcher School of Law and Diplomacy, the Council on Foreign Relations, Inc., Board of Governors of New York Hospital, the joint administrative board of New York Hospital–Cornell Medical Center and a member of the Labor Management Group.

U–M Actuarial Program Celebrates Its 75th Anniversary

The Michigan Actuarial Program began in 1902–03 when Professor James Waterman Glover of the U–M mathematics department introduced a course on the theory of annuities and insurance, the first of its kind to be offered in the United States. Since then, more than 1,000 students have graduated from the program, which is a joint offering of the Graduate School of Business Administration and the U–M department of mathematics.

Many of these alumni attended the 75th anniversary celebration of the program, which was held in the spring on the U–M campus. Of the more than 1,000 alumni, 700 were still in practice as of 1975, and some 300 are top executives or senior actuaries in their organizations. They come from all over the world, including the Philippines, Argentina, Brazil, Canada, Chile, Colombia, Costa Rica, Honduras, Hong Kong, India, Malaysia, Nigeria, Pakistan, Scotland and Taiwan.

Prospects for actuarial theory and practice over the next 25 years were considered at the 75th anniversary celebration by a panel of actuarial alumni including Herbert J. Boothroyd, Thomas H. Jolls, Jr., Walter W. Steffan, and Warren R. Adams, Society of Actuaries director of education. A forum on actuarial education over the next quarter century was moderated by Cecil J. Nesbitt, professor of mathematics. Alumni discussion leaders were Marjorie Van Eenam Butcher, Francis P. Lemery, Robert N. Powell, and Francis M. Schauer, Jr. A reception and dinner were held in the Michigan League following the day's events. Dinner speaker was A. Haeworth Robertson, recent chief actuary of the Social Security Administration, who spoke on "Reflections on Social Security in the Next Twenty-Five Years."

Because an actuary is a professional who is expert at the design, financing, and operation of insurance plans and of annuity and employee benefit plans, it is necessary to provide a broad foundation for approaching the many problems an actuary has to analyze. Thus there is need of a good background in mathematics, computer science, accounting, economics, finance, and communication skills. The educational object of the Michigan Actuarial Program is to impart such a background to its students and to give them basic preparation for the professional examinations administered by the actuarial organizations.

Activities of the current staff of the U–M Actuarial Program include advising the Michigan Commissioner of Insurance on health service plans; a training and advisory program for the Public Employee Retirement System of Puerto Rico; actuarial supervision of studies for the Cystic Fibrosis Foundation; and a variety of research projects.

Regulation by Indictment is Topic of 13th Annual McInally Lecture

Francis A. Allen, Edson R. Sunderland Professor of Law at the U–M Law School, gave the 13th annual McInally Lecture Sept. 28 at 4 p.m. in Hale Auditorium. The title of his talk was "Regulation by Indictment: the Criminal Law as an Instrument of Economic Control."

Professor Allen was Dean of the U–M law school from 1966 to 1971, and has served on the faculties of law of Northwestern University, Harvard University, and the University of Chicago. He has published extensively in numerous legal and criminological periodicals, chiefly on criminal law, constitutional law, and family law topics. His most recent book was entitled *The Crimes of Politics: Political Dimensions of Criminal Justice,* published in 1974 by Harvard University Press. He is currently doing research under a Guggenheim fellowship on the different aspects of rehabilitation in criminal justice. The research will serve as a basis for the Storrs lectures Professor Allen is scheduled to give at Yale University in 1979. The tentative topic for the lectures is "The Decline of the Rehabilitative Ideal."

The McInally speaker has held a great many public positions. He served as president of the American Association of Law Schools in 1976–77; as a member of the Advisory Committee of the National Institute of Law Enforcement and Criminal Justice in 1974; as Drafting Chairman of the Illinois Criminal Code of 1961 and as Chairman of the Attorney General's Committee on Poverty and the Administration of Federal Criminal Justice from 1961–63. After receiving his LL.B. magna cum laude from Northwestern University in 1946, he served as law clerk to Mr. Chief Justice Fred M. Vinson of the United States Supreme Court from 1946 to 1948. He holds honorary degrees from Harvard University and Cornell College.

The William K. McInally Memorial Lecture is named and held in memory of one of the U–M's former Regents. Other speakers in the series have included Harvard economist James S. Duesenberry, humorist Richard Armour, and German economist Herbert Giersch.

Professor Francis A. Allen

Expanded Program in Tax Specialization Offered to Accountants

An expanded program in tax specialization, designed to offer selective training on both the basic and intermediate levels, was offered for four weeks this summer under the joint sponsorship of the Paton Accounting Center of the Graduate School of Business Administration and the American Institute of Certified Public Accountants.

The National Tax Specialization Program was introduced in 1977 for two weeks, and proved so successful that it was expanded this year to include intermediate level training. The curriculum is practice-oriented and is designed to develop proficiency in preparing sophisticated individual and corporate tax returns.

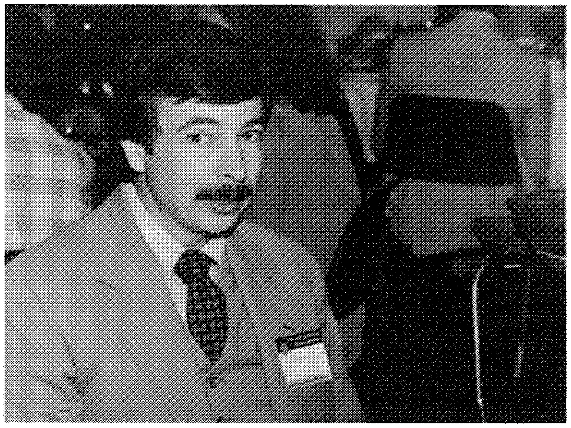
The first two weeks of the 1978 National Tax Education Program were devoted to basic level training. They covered such areas as basic tax concepts, tax research, special problems in individual income tax, practice before the Internal Revenue Service, income taxation of property transactions and corporate taxation. The third and fourth weeks were intermediate level training and included such material as estate and gift taxes, income taxation of estates and trusts, the closely held corporation, partnerships, taxation of multi-corporate entities and accounting for income taxes.

Daily sessions in the program included short case problems as well as longer case studies that required research in the University library. Each participant was assigned to a discussion group carefully selected and organized on the basis of each individual's background and experience.

The faculty for the 1978 National Tax Education Program included both practitioners and accounting professors, all selected because of their outstanding backgrounds, experience and the excellent evaluations they have received in teaching this type of program. Co-directors were Donald H. Skadden, director of Paton Accounting Center and chairman of the accounting faculty at the Graduate School of Business Administration of the University of Michigan and Herbert Finkston, administrative manager, Continuing Professional Education Division, American Institute of Certified Public Accountants.

To qualify for registration in the basic level program, participants needed to have an undergraduate college degree in accounting which included one or two tax courses, plus one "tax season" experience or one year's experience in the tax department of a public accounting firm or corporation. To register in the intermediate level program, participants needed to have the above requirements plus an extra year of experience or to have attended the first National Tax Education Program, held in 1977 at the University of Michigan.

It is expected that the Program will be held again in 1979.



Dean Welcomes Newcomers

Every year, Dean Floyd A. Bond hosts a reception to welcome new students, and a dinner to welcome new faculty members to the School.

A feature of the reception is the opportunity it creates for new students to meet informally with faculty members. Faculty from each subject area are available in different classrooms to talk with students.

Pictures on this page were taken of faculty newcomers at the dinner held in their honor. Clockwise from left they are: Melanie R. Wallendorf, lecturer in marketing; Dennis G. Severance, associate professor of computer information systems; Gordon L. Duke, lecturer in accounting; Donald I. Bosshardt, assistant professor of finance; and William L. Hafner, assistant professor of real estate and director of real estate education. Not pictured are three other newcomers to the faculty: Carl A. Batlin, assistant professor of finance; Martha R. Seger, adjunct associate professor of business economics; and Lee M. Smith, adjunct lecturer in actuarial science.

Pictured on the opposite page is Dean Floyd A. Bond greeting a student as she comes through the receiving line at the reception.

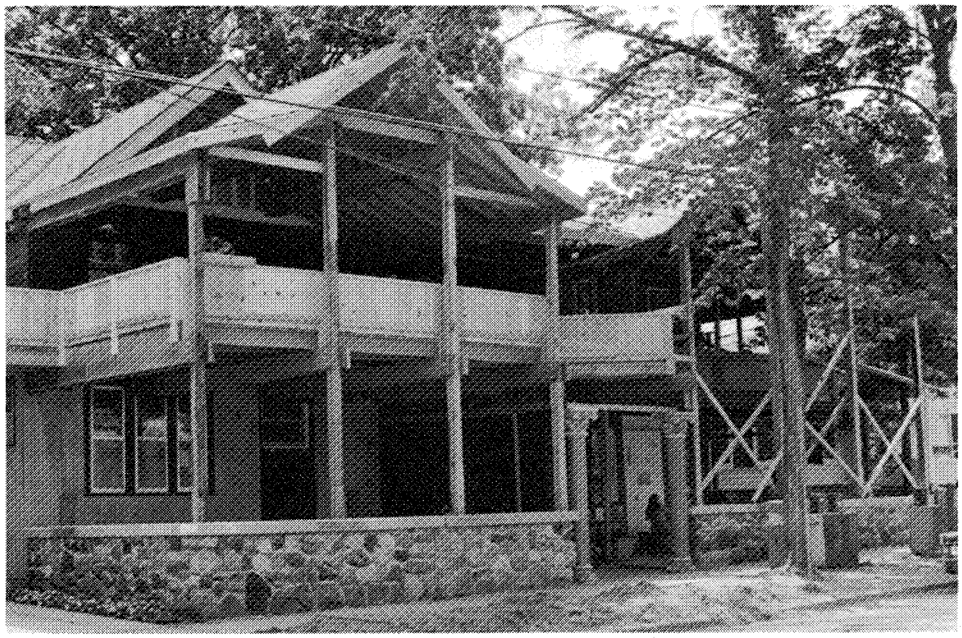
DOR Publishes Book on Current Issues in Advertising

"Current Issues and Research in Advertising 1978," has been published by the Division of Research of the Business School. The book (168 pp., paper $4.75) concentrates on three areas: comparative advertising, public policy issues, and advertising measurement techniques. It is edited by James Leigh, U–M doctoral student in marketing, and Claude R. Martin, Jr., U–M professor of marketing.

Among the issues discussed in the 14 papers in the book are the regulatory process and the use of bargaining between a manufacturer and the Federal Trade Commission, examined by William J. Bohan of the Ford Motor Company and Thomas C. Kinnear, U–M associate professor of marketing; public policy issues involved in a "bust developer" campaign, discussed by Eric J. Zanot of Penn State and Lynda M. Maddox of Syracuse University; and the potential for controls on in-house advertising agencies, considered by John Hallaq of the University of Idaho.

Comparative advertising (advertising that directly compares Brand A to Brand B) is considered in three papers in the book. R. Dale Wilson of Pennsylvania State University evaluates the effectiveness of comparative advertising. David Sheluga and Jacob Jacoby of Purdue University offer experimental evidence that a comparative advertising claim may be reasonably effective in capturing attention, but has little effect on comparison shopping. Gordon H. G. McDougall of Wilfrid Laurier University in Ontario examines the effects of consumer loyalty and use of substantiating materials in comparative advertising.

Various aspects of advertising research measurement are covered in papers by Lyman E. Ostlund, University of Arizona; Jack Sissors, Northwestern University; Larry Percy, St. Louis advertising executive; Jagdish N. Sheth, University of Illinois; and Fred S. Zufryden, University of Southern California.



Look what's happening to Dominick's! The little restaurant so familiar to business school students is being expanded as the house next door is converted to dining space, more than doubling the balcony, the upstairs dining room, and the sidewalk cafe areas. Plans are also afoot for a backyard dining area complete with a fountain. The two polished granite pillars now at the entrance were part of the ornamental architectural objects that used to grace the Architecture School lot across from the entrance to the B School building. Then the Architecture School moved to its new building on North Campus, and the Law School took over the lot for the use of construction vehicles needed during the expansion of the law library. Thus the decorative architectural objects had to go, and the two pillars were snatched from the bulldozer's path to find a new home across the street.

Professor Spivey is Named to the Clare E. Griffin Distinguished Professorship

W. Allen Spivey, professor of statistics, has been named the Clare E. Griffin Distinguished Professor of Business Administration. His appointment to the endowed chair "for so long as he continues to serve as a regular member of the School's faculty" was approved July 28 by the Regents.

The Griffin Professorship is named for the second Dean of the Business School. Clare E. Griffin, professor emeritus of business economics, was Dean of the Business School from 1929 to 1944, and subsequently held the chair of Fred M. Taylor Professor of Business Economics. Naming the professorship in his honor is a tribute to his 43 years of devoted service to the University of Michigan.

Professor Spivey joined the U–M faculty in 1956, and is noted as an outstanding scholar and teacher. He was awarded the Distinguished Faculty Achievement Award in 1971 by a University-wide selection committee. He has published numerous research articles, has authored or co-authored six books, and currently is doing research in statistical analysis of data involved in time series and econometric forecasting models.

International recognition of Prof. Spivey by fellow members of his profession includes an invitation to become a Fellow of the Royal Statistical Society. He has served as visiting professor at the London School of Economics and at Kyoto and Doshisha Universities in Japan. He is currently serving as an adjunct scholar at the American Enterprise Institute for Public Policy Research in Washington, D.C.

Professor Emerita Margaret Tracy Dies

The death of Margaret Elliott Tracy on May 12, 1978 brought to a close a distinguished career in the academic sphere and in public service. Born in Lowell, Massachusetts on October 28, 1891, she received the A.B. degree from Wellesley in 1914, the M.A. and Ph.D. from Radcliffe in 1921 and 1924, respectively, and studied at the University of London in 1924 as a Whitney Traveling Fellow of Radcliffe College.

Mrs. Tracy's interest in personnel management led to an appointment by the U.S. Ordnance Department at the Watertown Arsenal, where she was in charge of women's work during 1918. The year 1919 saw her in Washington, D.C., where she was an investigator for the children's Bureau of the Department of Labor. Later in 1919 and in 1920 she was personnel director for Waitt and Bond, Inc.

Mrs. Tracy's academic career began with an appointment as instructor at Abbot Academy, Andover, Massachusetts, 1915–17. Following the receipt of her doctoral degree in 1924 she was appointed assistant professor of personnel management in the newly organized School of Business Administration at the University of Michigan. At the time of her promotion to associate professor in 1929 she was given the same rank in the Department of Economics in the College of Literature, Science, and the Arts. Her promotion to full professorship in both schools came in 1931. She was the first woman to become a full professor in the School of Business Administration. Her fields of teaching included the basis course in labor in the Department of Economics and personnel management in Business Administration.

Students of Mrs. Tracy have considered themselves very fortunate. In the early '30s one of them was a young man named Gerald R. Ford. Since then he has commented many times to visitors from the University on the value of his work with her and his warm regard for her. During his most recent visit to the University he expressed these sentiments to an audience of students and faculty of the Graduate School of Business Administration.

Mrs. Tracy's activities were by no means confined to the classroom, and recognition of her abilities has come from many areas other than academic. For example, she was a long-time member of the National Federation of Business and Professional Women, and its research chairman from 1926 to 1930. She was also a member of the executive board of the Ann Arbor Community Fund from 1934 to 1937. Service to the University other than in the classroom included memberships in the executive committee of the local chapter of Phi Beta Kappa, the first Board of Governors of Residence Halls, and the first Executive Committee of the Institute for Human Adjustment. In these positions she helped to establish the fundamental policies of these organizations. She was also a member of the Library Committee of the College of Literature, Science, and the Arts. She was a member of the American Statistical Association and the American Association for Labor Legislation.

From 1936 to 1942 Mrs. Tracy was a trustee of Wellesley College. She was very active in the American Association of University Women. From 1951 to 1954 she was chairman of its National Fellowship Program, and for some time a trustee of its Fellowships Endowment Fund. On her retirement from this trusteeship AAUW gave a national fellowship in her name. In 1967 the local branch of AAUW contributed $5,000 to the fellowship fund in her name.

Mrs. Tracy's most recent honor came from the Women's Research Club of the University of Michigan. On April 3, 1978 this club cited eight women faculty members for their service to the University and especially to the interests of the members of the club, Mrs. Tracy was one of the eight. Unfortunately, due to illness, she was unable to receive the citation in person.

At the time of her retirement from the University faculty in 1955, the Regents of the University of Michigan paid tribute to "the contributions she has made as a brilliant scholar, a stimulating teacher, and a wise counselor of students."

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Letters

In the spring, 1978 issue of *Dividend*, we published a short case presenting a moral dilemma to a manager and asking readers what *they* would do. The dilemma in a nutshell was this: an equipment company had developed at great expense a machine to strip the bark off trees, but had difficulty in selling it. Finally, the vice president of a large company indicated interest in 120 machines, but wanted a 5% kick-back for placing the order. The following letter describes a similar true-to-life situation.

Editor:

The solution to the case appears in the words "vice president." I would make every effort to contact the president and/or board chairman—not to "blow the whistle" on the vice president, because he may be collecting for his superiors (but I doubt it). My upper level contacts would be to emphasize the superior features of our log debarkers and to make them aware of our bid or quote.

This is just a marketing problem that requires ingenuity and creativity. Under no circumstances would I succumb to the vice president's request. I was aware of an almost identical situation in the real world of business some years ago. The sales representative responsible for the sizeable account was most disappointed with management's unwillingness to "grease the right palm." In less than a year the offending purchasing agent was dismissed and all of his prime suppliers were suspect and many were cut off with his dismissal. The uncooperative vendor was honored with a quantity of business for many years thereafter.

Richard H. Baxter,
Phoenix, Arizona

Cut Along This Line. Address on Other Side.

WE WANT TO HEAR FROM YOU!

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 postcard on which we invite you to write us. Unless you indicate otherwise, we will feel free to publish your remarks in a letters column.