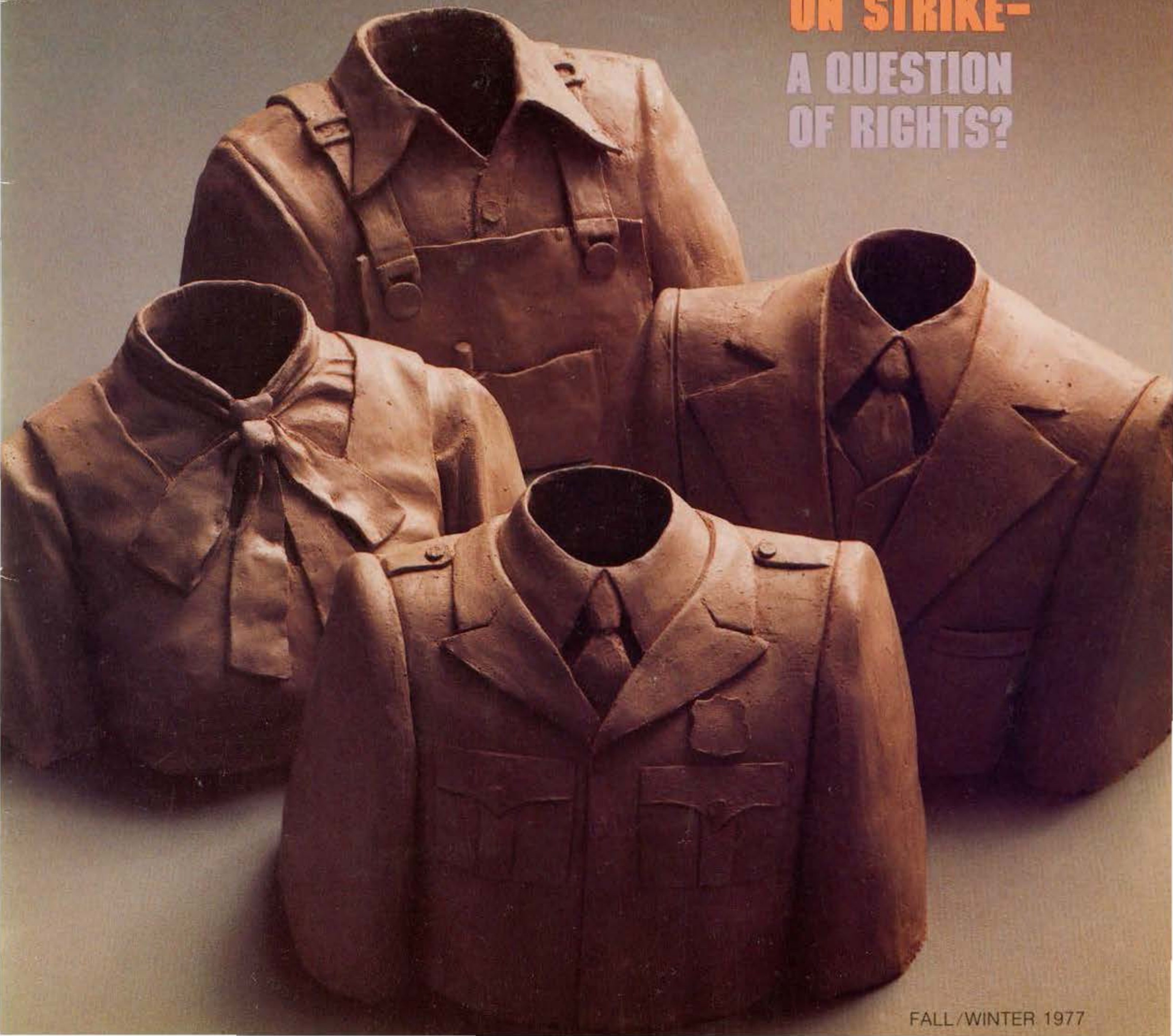
EXCHANGE

BRIGHAM YOUNG UNIVERSITY

COLLEGE OF BUSINESS / GRADUATE SCHOOL OF MANAGEMENT

THE PUBLIC EMPLOYEE ON STRIKE— A QUESTION OF RIGHTS?



FALL/WINTER 1977

DEAN'S REPORT

A New Investment Program

Last spring, the administration of Brigham Young University approved the creation of the Brigham Young University Management Society. The society was established jointly by the College of Business/Graduate School of Management and the Brigham Young University Alumni Association. The society's purposes are to promote the management profession among alumni and friends and to support the College of Business/Graduate School of Management.

Objectives of the society include organizing alumni and friends in recruiting candidates for admission to the Graduate School of Management; providing placement and career advancement opportunities for members of the society; and mobilizing the support of students, alumni, and friends in funding a new building and promoting a continuing standard of excellence in management education at Brigham Young University.

Though, in many respects, the society is a "giving club," it has also been organized to mutually reward both members of the society and the University. The society will sponsor professional development seminars and special lectures, provide reprints of outstanding speeches, and assist in identifying career opportunities. In addition, *Exchange* will be distributed to members of the society.

The first professional development seminar sponsored by the Management Society will be held November 2 and 3, 1977, at Brigham Young University. Entitled "New Perspectives in Management," this two-day conference is geared to middle- and upper-level managers and staff professionals (see p. 12).

The management programs at Brigham Young University are moving forward at a rapid pace. The opportunity exists for BYU to fully assume its unique role in management education—an education that emphasizes technical skills and interpersonal communication and is based on an understanding of the links between societal values, institutions, and individual freedom.

I encourage each reader to participate in the society and, therefore, invest in the building and maintaining of excellence in management education at Brigham Young University. Returning the postcard enclosed in this issue will allow you to receive more information on the Management Society. I am committed to the belief that your support of education at Brigham Young University will continue to extend immeasurably beyond our classrooms.

Merrill J. Bateman

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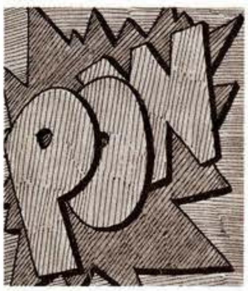

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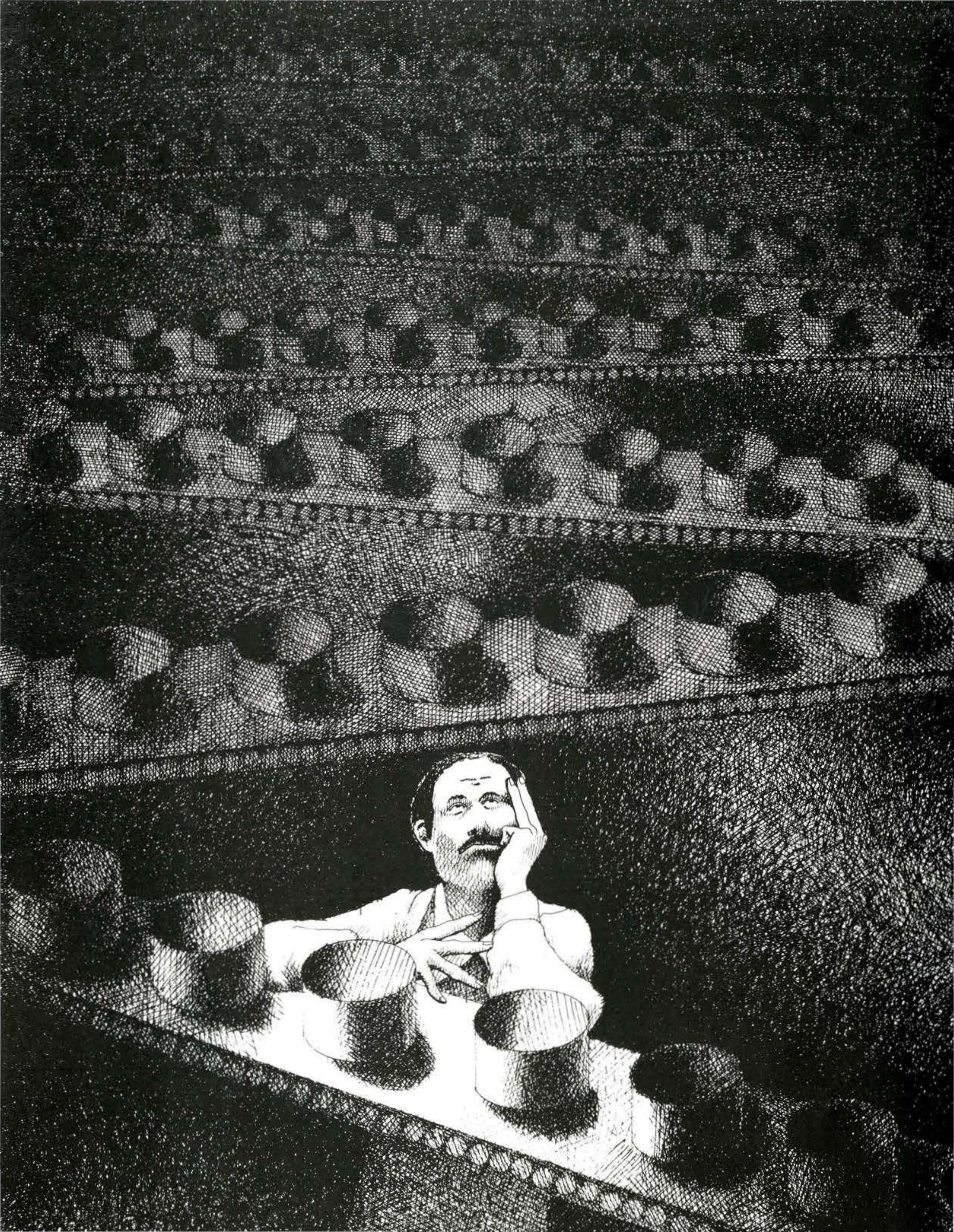
Cover: Sculptures by Ron Eddington and Michael Kawasaki. Photo by Photocraft



REVIVING OUR TOTTERING WORK ETHIC

by David J. Cherrington

Many managers complain that today's work ethic just doesn't measure up to yesterday's. Some insist that this deterioration is a serious indictment against a society which grew and flourished on the ideals of rugged individualism and hard work. These workers' major interests in life are not work centered; their jobs are important primarily because they provide the financial means for leisure pursuits. A young auto worker, asked why he had averaged only four-day work weeks, answered, "Because I can't make enough money working three days a week."

The accusations of managers are correct—today's work force, especially young workers, does not have the same values as previous generations regarding the importance of work, pride, and craftsmanship. Several reasons for this change have been proposed. The rising generation is better educated and expects more challenge and involvement in their work. They also want to be more independent, supervise themselves, and have a larger voice in making decisions about their jobs.

At the same time, the nature of work has changed. Industrialization has made it possible for most workers to produce more in two hours than their grandfathers produced in a 12-hour day, and usually with less effort. The loss of a job used to pose a serious threat to the financial security of a worker and his family. Today, however, many workers can collect as much as 90 percent of their regular take-home pay through unemployment compensation and union layoff benefits.

These conditions seriously challenge the traditional work ethic. Why should work be an important part of life when the work week gets continually shorter and the four-day work week is designed to allow greater leisure pursuits? Why should we believe in the "dignity of labor" when minimum wage laws eliminate "dirty" jobs, automation eliminates repetitive jobs, welfare and unemployment compensation reward people for not working, older workers are encouraged to take early retirements, and mandatory retirement ages are set? How can we have feelings of pride in our work when products are mass-produced, no one notices performance, and we are paid for time, not effort? Why should we be dependable and punctual when executives set their own "flexible" work hours and companies are reluctant to fire employees for absenteeism or sloppy work?

On the other hand, managers still insist that they want employees who are responsible and productive. They want individuals who are outstanding workers and who take pride in their efforts. While work need not be an all-consuming life interest, they look for an employee who thinks work is an important part of his life and who will go out of his way when necessary to make adaptive changes and meet emergencies. In short, employers are searching for those who espouse the work ethic.

Who's to Blame?

The decline in the value of work has usually been blamed on parents and the educational system. But fixing blame does not change the situation. This ethic need not be restricted to life-long hard workers. Managers can and should teach work values at work.

It cannot be ignored that work continues to play an important role in an individual's life. Evidence of this comes both from interviews with workers and empirical research on work therapy and leisure. In numerous interviews with workers who are very work oriented and those who only work because they need to, the subjective assessment of the quality of workers' lives consistently favors those who are work oriented. They seem to "attack" everything in life with the same vigor with which they "attack" their work. Their orientation toward life seems to be "what can I accomplish" rather than "what do I have to do."

These subjective impressions regarding the importance of work have been strongly supported by "work therapy" rehabilitation programs. Numerous studies have illustrated the value of meaningful work in rehabilitation programs for alcohol and drug users, in mental institutions, in prisons, in educational programs, and in minority-training programs.

Illustrated by Ron Eddington

The failure to teach work values over the past two decades has resulted in a serious deterioration of the traditional work ethic. More than a decade ago David McClelland reported an extensive study on the achievement motive. (See "Business Drive and National Achievement," *Harvard Business Review,* July 1972, pp. 99-112.) He presented evidence showing that the achievement motive was associated with entrepreneurial success in America, India, and other countries. Most importantly, by studying the literature—poetry, drama, lyrics, etc.—of two earlier civilizations, ancient Greece and England from A.D. 1500 to A.D. 1850, McClelland demonstrated how economic growth curves followed, some 50 years later, the curves of the achievement motive found in literature.

Following McClelland's logic, one would expect work values to be influenced by what was taught several decades earlier. A review of popular literature in America from 1890 to 1975 shows a steady increase in the number of articles regarding the work ethic from 1890 to 1940. Then, from 1940 to 1970, there was a dramatic decrease in the number of work ethic articles to the point where no articles appeared from 1963 to 1967. Since 1970, several articles have appeared, but many of them have asked, "What happened to the work ethic?"

The "Personality Ethic"

Research evidence suggests that the work ethic is still largely accepted by today's work force, but that its importance has been noticeably diminished and partially supplanted with the "personality ethic." (See Richard Huber, *The American Idea of Success,* McGraw Hill, 1971.) The personality ethic suggests that success comes not by hard work and perseverance, but by a pleasing personality and the ability to say the "right" things and act in the "right" way in order to get along well with other people. Similarly, a comparison by the author of workers of all age groups clearly indicated that younger workers are less work oriented, not as committed to their company or to America's economic system, more willing to accept government welfare, and more concerned about social interactions. Thus, the deterioration of the traditional work ethic is partially due to our failure to teach work values during the last two decades.

TODAY'S WORKERS DON'T SHARE THE VALUES OF PREVIOUS GENERATIONS

The work ethic is not inherited—it is learned. For most people the development of individual work values is largely determined by early experiences in life, primarily between the ages of six and sixteen. In research conducted at Brigham Young University, two specific work values were measured: pride of craftsmanship and the moral importance of work. The best single predictor of both work values was family expectations—"My family expects me to perform well on the job." The next best predictor was the importance of religion. Three other items associated with the family were also good predictors of work values: working with parents as a youngster; coming from a close-knit, happy family; and being expected to do a lot of work as a teenager.

Consequently, managers are correct when they proclaim in frustration that the problem stems from parents failing to teach children how to work. However, there are other considerations. Most people who have learned to play a piano learned when they were between the ages of 6 and 16—but that does not mean an adult cannot learn to play the piano. Likewise, an adult can learn new values. Similarly, much of the training for supervisors attempts to change basic values and assumptions about people. So, why shouldn't the work ethic be taught at work?

Before managers throw up their hands in despair, they ought to consider the story of Carol Blanchard. While work values are usually developed in youth, Carol Blanchard developed a strong work ethic when she was in her mid-twenties as a result of her work experience.

An "Eager Beaver"

I interviewed Carol at her job in much the same way I interviewed more than 50 other individuals. These people were identified by members of management as the outstanding producers within their companies. Managers referred to them so often as "eager beavers" that in my notes and talks I have simply called them the "Beavers." They were employed in 35 to 40 different companies, and their occupations were extremely diverse in terms of socioeconomic status, skill, and hierarchical level in organizations. Nevertheless, they had many common characteristics: at the top of the list is the fact that they had all been judged as extremely competent, highly productive, and very efficient.

Like all the other Beavers, Carol told me she was extremely work oriented. Her job was a very important part of her life and a major source of satisfaction to her. She enjoyed her work, and she enjoyed most of her co-workers. She identified various company problems, but it was obvious that she was determined to continue working to solve them and make the organization more effective.

All but three of the Beavers I interviewed said they had been work oriented all their life. Carol was the first of the three to say she had "learned to work" as an adult. She had been work oriented for about 12 years. Before that, she said, she disliked work and avoided doing anything she disliked.

I had been so accustomed to hearing the Beavers describe how their parents taught them to work when they were young that I was surprised to hear Carol's story. In fact, Carol claimed her parents taught her very little; she was raised in the neighborhood, not in the home. She was not expected to help with the housework or work in the yard. She did not even clean her own room, and apparently no one else did either. She described both her physical environment and personal character as sloppy, unkempt, and careless.

She finished high school and one year at a community college but did very poorly because of poor study habits and a lack of interest. At 19 she was married, and for the next five years the lives of both her and her husband were described again as sloppy, unkempt, and careless, and they drifted from one job to another.

After their new television set was repossessed, the couple moved to California. Since they had only one car, they found jobs in locations where the husband could drop Carol off at work en route to his job. This transportation situation motivated Carol to keep her job rather than quit.

The Blanchards were in California for four years, at the end of which time Carol was responsible for the entire inventory control system of this small manufacturing company, including all the ordering of parts and purchasing of supplies. The system she used for inventory control was one she had designed and implemented herself. The organization depended very heavily upon her for efficient operation.

Carol's description of how she "learned to work" largely revolved around her supervisor. She described him as a "patient teacher" who was always willing to help and encourage her and never willing to accept errors or careless work. Initially, she had been hired as a file clerk and was expected to perform only a limited number of elementary tasks. Nevertheless, she made countless errors on even those simple duties. Making a lot of errors did not bother her, it only bothered her supervisor who repeatedly required her to correct her mistakes. What began to bother her was the way her supervisor would not accept careless work. When he found an error he would show it to her and politely ask her to take care of it. He was never punitive or threatening, but he was very persistent. Carol did not like her job and often wanted to quit.

MANAGERS CAN DRAMATICALLY INFLUENCE APPRECIATION OF THE WORK ETHIC

During the second year, Carol's job performance improved. At first it was not because she wanted to do better but because her supervisor would not accept her work if it was wrong. As she improved, he recognized this and frequently expressed appreciation for her work. Gradually she began to see how pleased he was with her performance and how much happier she felt about her own work.

Internalizing Ideas

Occasionally he made subtle comments regarding the importance of work and the value of dedicated efforts. These comments began to make sense to her, and she started to internalize the ideas. One particular phrase, "If it's worth doing, it's worth doing right" changed from a trite expression and a criticism of her work to a guiding philosophy for other aspects of her life.

By the end of the second year her basic orientation toward work had changed. Rather than "putting in time," she was finishing a job. She began to explore the relationship between her job and other jobs. She started to look for factors which kept her from performing her job more effectively and examined what she could do to help others.

As she demonstrated greater competence, her supervisor began to allow her more freedom. Rather than checking everything she did, he began to make periodic checks and finally left her with the total responsibility for checking her own work. He was always receptive to new suggestions and would carefully evaluate them. When she redesigned the inventory control system, he was very encouraging and offered to help in every way possible.

After four years in California, she accepted a job offer from another manufacturing company which hired her to implement her new inventory control system. After 10 years with the new company she continues to exhibit the same outstanding dedication and pride in her work. The president of the company feels that her tremendous capacity to get things done makes her a very valuable member of management. He says that three average employees could not adequately replace her.

The changes which occurred during Carol's first two years in California could be attributed to many factors, such as the couple's finances, the influence of her coworkers, comments by neighbors, or attitudes in the community. However, Carol attributes the change to her supervisor. While he refused to accept mediocre work, he was very expressive and complimentary about a job well done. He seemed to possess the ability to give her objective feedback, identifying her errors and communicating his expectation of careful, correct work without condemning her. To help her increase her attention span, he frequently helped her set goals for accomplishing various jobs within a specified length of time. The most subtle, but perhaps the most important influence he exerted on her came from his many offhand comments supporting hard work, pride, and initiative. These values were a part of his life, and he taught them by precept and example.

The example of Carol Blanchard questions several popular solutions propounded by many behavioral scientists. Theories have proposed restoring the work ethic by giving the employees "what they want." This includes a more challenging job, more flexible work hours, more money, more benefits, more vacation, etc. According to this logic, if the employees get what they want, they will feel a greater commitment to the company, and management will, in turn, get what it wants—motivated employees.

However, these rewards have not led to greater job commitment or to greater appreciation of hard work. They do not strengthen work values for some very good reasons. These rewards do not teach the kinds of discipline and self-control that develop work values. Rather than focusing the employee's attention on the value of high-quality work and the satisfaction of having done his best, these rewards focus attention on leisure pursuits.

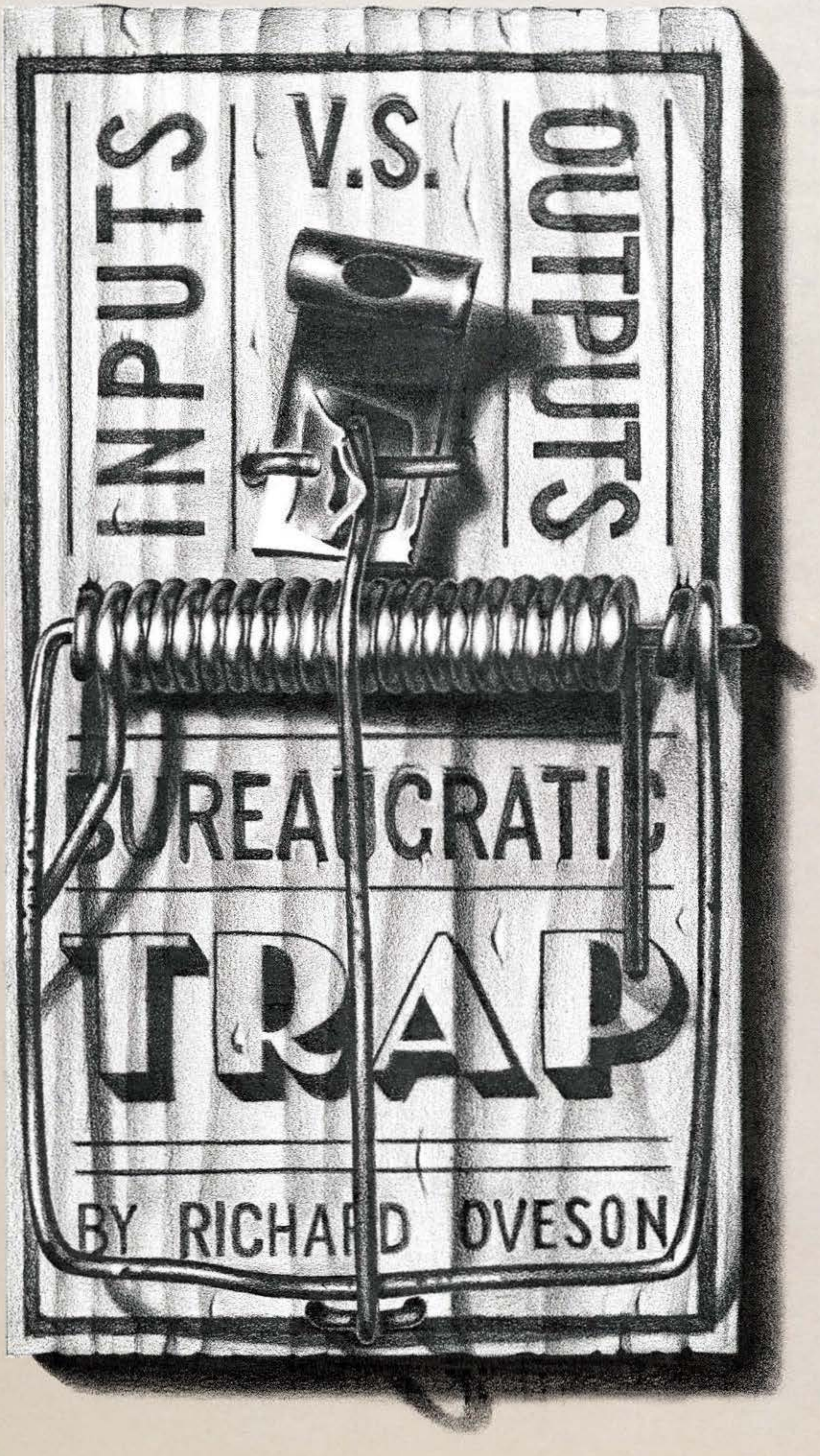
"IF IT'S WORTH DOING, IT'S WORTH DOING RIGHT"

Between 1970 and 1975 there were at least 20 articles discussing the work ethic which concluded that the values of employees have changed and so must the nature of work. Suggested changes for "enlightened" employers to adopt included: (a) giving workers a totality of tasks; (b) breaking up the assembly line; (c) permitting employees to organize their own work; (d) letting workers see the end product of their efforts; (e) letting workers set their own hours; and (f) treating workers like mature, responsible adults. (See "Is the Work Ethic Going Out of Style," Donald M. Morrison, *Time,* October 30, 1972, pp. 96-97.) Other solutions to the problem of a declining work ethic have included participatory democracy where autonomous work teams are formed to run some plant operations and allowed to set their own quality and work standards. (See "The U.S. Work Ethic: Dead or Alive," Keith W. Bennett, *Iron Age,* January 4, 1973, pp. 90-91.)

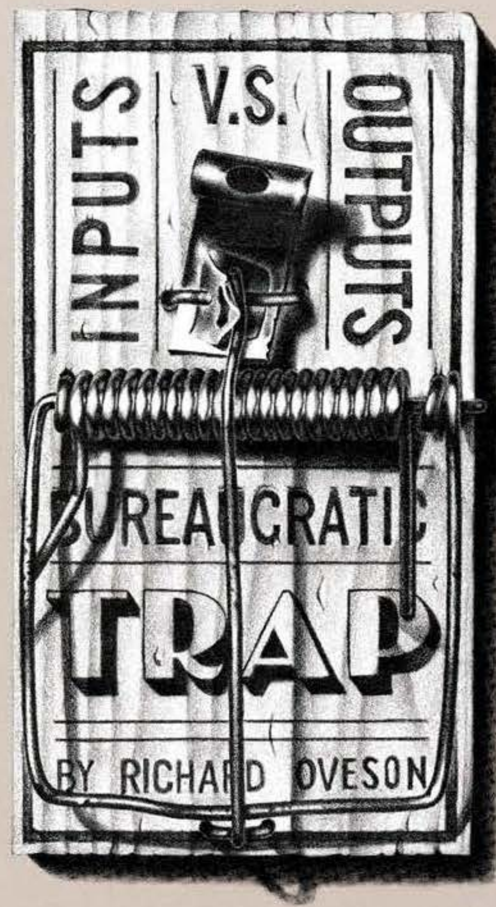
These prescriptions sound very progressive, and managers probably think that opposing such "modern" concepts would brand them as authoritarian autocrats. Certainly Carol was allowed to set her own work standards and even encouraged to redesign her work. But it is important to remember that these changes occurred *after* the change in her work values. That is, the changes in Carol's work values *did not occur after her job was enriched.* Instead, *after* Carol began to demonstrate competence and pride in her work, *then* she wanted and received more responsibility and autonomy.

This suggests that job enrichment, participatory management, and job autonomy are important facets in teaching work values. But these facets do not cause the work ethic. Participation and loose supervision cannot simply be tossed to the worker and thus expected to *cause* an increase in work values. Instead, they must accompany and reinforce changes in work values as the employee learns greater self-discipline and personal responsibility.

The experience of Carol Blanchard illustrates how managers can dramatically influence the work ethic. If Carol's analysis is correct, managers *can* teach work values. While criticism regarding the work values of today's youth may be legitimate, managers should not despair and assume there is nothing they can do about the situation.■



Illustrated by Harvey Cusworth



Like commuting and crabgrass, one of the apparently inevitable consequences of modern life is the development of bureaucracy. Its presence is felt everywhere, its influence for good or evil present everywhere, and its end is nowhere in sight. Bureaucracies, which result from our efforts to organize the production of public goods (such as safety, clean air, clean water, and defense), currently appear to be encroaching more and more on the traditionally private sector. This movement, encouraged by some and viewed with alarm by others, should be examined in the light of a badly neglected fact of bureaucratic existence. Bureaucrats, as opposed to those in the private sector, have a very hard time defining what they're doing—or are supposed to be doing. One of the principle defenses of free enterprise against further bureaucratic encroachment lies in the recognition of this situation.

While bureaucracies struggle to define goals, businessmen involved in free enterprise capitalism have a sense of direction and a goal—they're making money, or at least trying to make money. This objective is understandable, easily measured, and acts as a common denominator linking organizations as diverse as U.S. Steel and McDonald's. Economic theory since Adam Smith has postulated that the objective of the firm is to make money—usually as much of it as possible. Indeed, a great deal of the regulation that ensnares business today is the direct result of innovative, aggressive, not-always altruistic efforts to maximize profits. There have, of course, been suggestions from many quarters that much of American business is interested in maximizing something other than profits—growth, sales, market share, etc. Whether this is true or not, the fact remains that the objectives of American business are generally well defined and quantifiable.

While well-defined and quantifiable objectives are true of the business sector in American life, they are much less true of the public sector. Bureaucracies, by and large, have poorly defined goals, usually involving objectives which, in the words of far too many bureaucrats, are "non-quantifiable." This does not mean that the public sector is staffed by incompetent ne'er-do-wells nor by self-serving individualists. On the contrary, public servants at all levels of our society tend to be honest, hard working, and intelligent. The problem lies in defining objectives.

Reasonably competent executives can tell whether or not they have covered costs—including their own salaries. They may fall somewhat short of theoretical profit maximization (or growth or sales maximization), but if their accounting departments are unable to keep them informed concerning the state of their business, their creditors soon will. Furthermore, in seeking individuals in whom to vest greater responsibility, a business has some measure against which to judge candidates for advancement, i.e., the contribution of their efforts to total company earnings.

Input-Output Trap

Defining objectives is far more complex in the public sector. If an organization has vaguely defined goals, then the contribution of individuals to the attainment of those goals is also vaguely defined. Successful executives are measured by their contribution to *output*. However, far too many public servants find themselves being rewarded for their *inputs*. (It should be quickly noted that even the author recognizes that very little output is achieved without some input.) Problems arise when input and output become confused, and the confusion grows greatest as goals recede into generalities of the sort found framed on the walls of many public sector offices.

Virtually every organization—even a successful business—falls into this input-output trap from time to time. Large business organizations are more susceptible than smaller ones, since the distance between top and bottom is obviously greater in larger firms. It is, for example, difficult to measure the contribution of a single midlevel executive to the profits of a billion-dollar corporation. But while business must guard against the possibility of input–output confusion, bureaucracies must cope with it as a virtual surety.

Perhaps the most dramatic example of input–output confusion is illustrated by the Vietnam War. The objectives of that effort were generally defined as stopping the spread of Communism and guaranteeing the freedom and sovereignty of the South Vietnamese. While both of these objectives were certainly laudable, no one stepped forward with sufficiently well-defined means of measuring progress toward either goal to enable those charged with the implementation of U.S. policy in Southeast Asia to know whether or not those objectives were being achieved. Hence, progress in the Vietnam War quickly came to be measured by counting inputs—tons of bombs dropped, sorties flown, enemy killed, and so on.

While each of these inputs made some contribution, the reliance on inputs to measure progress toward stated goals ignored the important principle of diminishing marginal productivity. (This principle indicates that while "some" may be good, "more" is not necessarily better—indeed, one more unit of input may eventually become counterproductive.) In the case of the Vietnam War, the lack of clearly defined goals was unquestionably a major factor in our inability to bring that conflict to a successful conclusion.

Those charged with evaluating the performance of public organizations repeatedly find that the principal problem in performing their duties lies in defining some measure of output against which to measure performance.

All organizations feel a need to measure the degree of their success and the contribution of participating individuals to that success. If goals (or output) are difficult to define and even more difficult to quantify, the temptation is almost overwhelming to measure success and contribution by counting things that are quantifiable, and inputs are always quantifiable. Thus, success becomes a function of money spent, people employed, and projects undertaken, while contribution is measured to a large extent by hours at work and paper generated. That contributions to the public good are made from time to time is a tribute to the tenacity and selflessness of the average public servant. This is especially evident since the incentive system, which springs from input–output confusion, is usually related to the real goals of the organization only by accident.

Assigning Points

Some years ago the U.S. Air Force instituted a system for evaluating operational units called Management Control System or MCS. First applied in the Strategic Air Command, MCS assigned points to nearly every conceivable activity associated with an operational unit. Commanders were promoted or lost their jobs as a result of point totals and consequently were quick to perceive that the path to success lay in maximizing points. To the degree that MCS points were directly associated with the mission of the Strategic Air Command, the system was effective; but, to a major degree, the system developed a life of its own, independent of mission-related objectives. At the same time, the ingenuity of individuals involved in maximizing points became practically unlimited. The Air Force finally abandoned MCS in favor of a system that places greater emphasis on no-notice operational readiness inspections which attempt to evaluate a unit under conditions as close as

Bureaucracies, by and large, have poorly defined goals, usually involving objectives which, in the words of far too many bureaucrats, are "nonquantifiable"

possible to those forecast for war.

As these experiences with MCS show, individuals in an organization are quick to perceive where the real rewards lie, no matter what the declared incentive system. If organizational goals are not well defined and measurable, incentives (real incentives—the actions which result in promotion or other rewards) are not likely to be closely linked to those announced goals. The result is the well-known phenomenon, best articulated by C. Northcoat Parkinson, in which bureaucratic organizations tend to develop a life of their own accompanied by growth patterns that appear to operate independently of original organizational objectives.

It is necessary to add one further comment on incentives. Business incentives are generally financial in nature—bonuses, pay raises, profit-sharing schemes, etc. Bureaucratic incentives are almost never financial, the notable exception being the growth of financial reward systems for cost-saving innovations. (These rewards, however, are generally reserved for lower-echelon members of the organization.) As an example, the highest ranking officers in both civilian and military federal bureaucracies are limited by law to salaries in the range of $50-60,000 per year. (The great majority of those who leave civilian life to accept appointive government posts do so at significant financial sacrifice.) While top-level bureaucrats, both military and civilian, are still underpaid in relation to their level of responsibility, mid-level bureaucratic workers are generally paid at a competitive level. As a consequence, there is little financial incentive to rise in a federal bureaucratic organization, and those who strive for advancement are motivated by factors other than financial.

More serious for the organization than what the motivating factors are is their measurability. Generally, the criteria for judging whether or not those motivations are coincident with the long-range goals of the organization are themselves poorly defined. As in all organizations, advancement is based upon the decisions of superiors, and superiors—especially superiors within a bureaucracy—tend to advance those who support their own views (a perfectly natural phenomenon) and those who do not embarrass them with innovative, but risky, schemes. Innovation within a bureaucracy has few rewards and many risks.

Measurable Terms

Two important points result from this analysis. First, since bureaucracies are certainly here to stay, a major effort must be made to define bureaucratic goals in clear and measurable terms. If, as is frequently argued, the goals cannot be quantified, then perhaps the organization or scheme under study ought to be abandoned. After all, if no one knows whether or not society will have more or less of what the organization is designed to contribute, then there exists a finite probability that there will be less.

Second, since bureaucratic goals are hard to define, there is a strong argument for retaining as large a private sector as possible. The private sector has a successful, fractionalized, enormously complex system for allocating resources—prices. Prices are quantifiable, easily understood, and send the same signal to everyone. While the push from Adam Smith's invisible hand may need occasional restraint, its appeal to our universal desire to get more than we've got remains the best available means to assure that what we get is what we want. ■

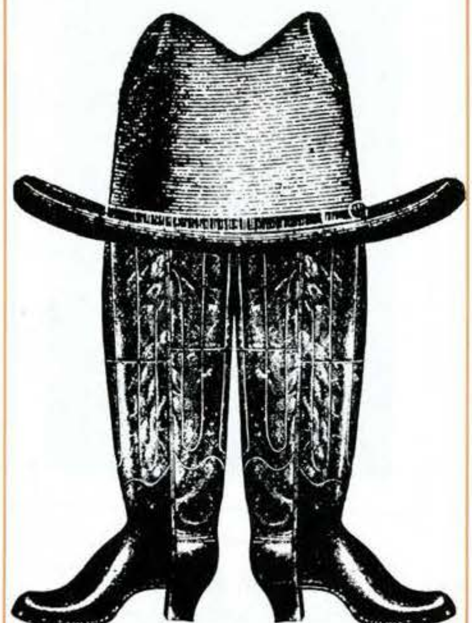
The temptation is to measure success in terms of money spent, people employed, and projects undertaken, while contribution is measured by hours at work and paper generated

(OIL) WELL EARNED SUCCESS

The *Washington Post* has described him as "a reluctant tycoon" and a "free-thinker with a pearl-gray Stetson and stacked-heel, narrow-toe cowboy boots"—he is also Brigham Young University's Executive of the Year.

Robert O. Anderson, chairman of the board and chief executive officer of Atlantic Richfield Co., will receive the award presented annually by the College of Business/Graduate School of Management at the November meeting of its National Advisory Council.

"Anderson is more than just another sunbaked petroleum chief whose power comes out of the ground," said the *Post* on January 23, 1977. "He is an atypical oil executive, frequently taking political positions that are contrary to the gospel according to big oil. He



opposed the industry's depletion allowance years ago and the Highway Trust Fund before it was fashionable to do so. He says we need more public mass transportation and smaller cars.

"In private, Anderson has supported environmental causes that have created headaches for his own management. But he also has approved his company's construction of the Alaska pipeline and the deal, nullified by the Federal Power Commission, which would have forced Californians to pay now—through the utilities companies—for Arco's future delivery of natural gas to the state."

A native of Chicago, Anderson is also one of the country's largest individual landowners and breeders of cattle, bulls, and Arabian horses. In addition, he is an active member of the Business Committee for Arts, the Smithsonian Institution, the Conference Board, and the Aspen Institute for Humanistic Studies.

The *Post* stated, "One week he is the urban sophisticate motoring around Manhattan between high-powered appointments in a Cadillac limousine. The next he is backpacking alone on his 60,000-acre Latigo Ranch, out in the desert with a knife and a couple of candy bars to test his endurance—and to think." His involvement in business, civic affairs, government, and the arts has also "given him a reputation as something of a jet-age Renaissance man." ■

Taking a Stand on the (Zinc) Market

Merrill J. Bateman, dean of the College of Business/Graduate School of Management, was called to testify on the viability of a zinc futures market before the Commodities Futures Trading Commission in Washington, D.C. The testimony was prepared at the request of Commodity Exchange in New York.

In his testimony, Bateman cited the criteria that should be satisfied for a zinc futures market to be successful, adding that the probability of success for a futures market is relatively high.

Bateman reported that most of the advantages of a zinc futures market center around the "increased competitiveness that occurs when an open, formalized market with a set of rules is established in contrast to a decentralized, cash market. Another advantage is that actively traded futures markets generate considerable amounts of information above and beyond that generated in a physicals environment. This leads to better-informed participants and a market which reflects supply and demand more accurately." ■

Careers, Planning, Regulation . . .

Financial planning in an inflationary environment and the conflict between company goals and individual career plans are two issues to be examined in BYU's first management seminar.

Middle and upper-level managers and staff professionals will attend the two-day conference. Faculty members J. Bonner Ritchie (Organizational Behavior), Paul H. Thompson (Organizational Behavior), Darral G. Clarke (Business Management), and Stephen D. Nadauld (Business Management) will lead the November 2 and 3, 1977, conference.

Sponsored by the BYU Management Society, College of Business/Graduate School of Management, and the Division of Continuing Education, the conference is entitled "New Perspectives in Management."

The five sessions will include:

Management in a Changing Environment. Ritchie will direct the group in looking at trends in social norms, work values, government regulations, and management strategies. Participants will examine the impact of consumers, employees, labor unions, government agencies (EEOC, EPA, NLRD, OSHA), and public interest groups on the management profession.

Career Strategies. Research concerning careers, career coaching, and performance appraisals will help managers plan for their own and their subordinates' career progress. Thompson will lead case-study discussions and present a model of career stages with implications concerning both individual careers and organizational goals.

Conflict between Company Goals and Individual Career Plans. Thompson and Clarke will discuss the conflicts created, for example, between sales goals and career objectives. "There are not easy and pat solutions, but an increased sensitivity to the sources and nature of the problem is a valuable aid in minimizing the risk of conflicts," says Thompson.

Intermediate Planning. A computer-assisted case discussion will help managers compare planning strategies. Clarke will direct the group in analyzing the implications of planning in order to predict the future competitive environment of a firm.

Planning/Finance. A continuation of the strategic-planning focus introduced in the earlier session, Nadauld's emphasis shifts from intermediate planning to financial planning in an inflationary environment. Many companies have failed to adjust for inflation when analyzing the profitability of proposed capital investments. Seminar participants will address questions such as: How flexible are the operating and financial assumptions built into the typical project analysis? Can my company meet the stiffer capital profitability test of the future? How should management strategy respond to the effects of eroding inflation?

According to Thompson, "Some of the changes in the environment in which organizations find themselves make it possible for a manager to make costly mistakes without thinking. An example of this is the pressure which can be brought to bear because of the infraction of a government regulation by a manager who, if he had made the statement or taken the same action ten years ago, would not have felt any consequences at all." He added, "We hope to sensitize participants to these changes." ■

Some Choice Words on Coaching and Team Work

Organizational Behavior Professor William G. Dyer's new book, *Team Building: Issues and Alternatives,* has been published as part of the well-known Addison-Wesley series on organizational development. Editors of the successful series describe Dyer's book as the first in the field to deal explicitly with "team building" and the appropriate use of groups as a major part of organizational change programs.

The book emphasizes that modern managers, meeting the demands of increasingly complex organizations, have had to learn to solve problems collectively. This necessitates that the modern manager be a "coach, a facilitator, a developer, a team builder." Dyer's book is written for the manager and the consultant who want to know how to design and implement a team development program.

"Team development is not a one-shot activity or a panacea for organizational problems," explains the BYU professor. "Rather, it is a long-range program for uniting people into shared efforts for improving the effectiveness of a working group."

Several chapters offer alternative formats for dealing with diverse problems that face work groups. Assessing organizational needs for team development and identifying problems are discussed as necessary prerequisites to implementing a team development program specifically tailored to unique needs and problems.

"Team development does not mean managing by committee, where no one is in charge and all actions must be decided by all. A team is a unified, cohesive group of people who have special functions, but each person needs the resources and support of others to get the job done. Team effort will continue as long as humans must rely on others to achieve results."

In addition to his teaching and extensive research at BYU, Dyer is a private consultant to such companies as Standard Oil of Indiana, General Foods, and Exxon. He has also written *Modern Theory and Method in Group Training, The Sensitive Manipulator, Insight to Impact: Strategies for Interpersonal and Organizational Change,* and *Creating Closer Families.* ■

William G. Dyer

Prognosis for Health Care

Dale Wright, assistant professor of Public Administration, is currently serving a four-year appointment as a member of the National Advisory Council for Health Professions Education. The council presents recommendations to the Secretary of Health, Education, and Welfare.

On the council Wright represents health-care administration and deals with such concerns as long-range health-care planning and hospital administration.

The members of the council represent various professions pertaining to medical care, such as medicine, dentistry, optometry, etc.

One of the projects that Wright is studying is the serious financial troubles of U.S. medical and dental schools. Many of these schools approach the federal government for grants that enable them merely to maintain their operations. Wright and other members of the council meet with officials of such schools to help them improve their management procedures and assist them in getting back on their financial feet.

In addition, Wright is working on the problem of foreign medical school graduates who apply for admission to schools in the United States.

Prior to his service on the council, Wright worked in the U.S. General Accounting Office, Washington, D.C., supervising the evaluation of emergency medical services. ■

THE RIGHT TO STRIKE BY PUBLIC EMPLOYEES

by William M. Timmins

PUBLIC WORKERS AND PUBLIC UNIONS ARE INCREASINGLY VOCAL, INCREASINGLY MILITANT, AND INCREASINGLY SUCCESSFUL AT THE BARGAINING TABLE

Strikes by public employees have become commonplace in the last few years despite almost universal objection to the disruption of urgent public services. The past year has been particularly strike-prone—recall strikes in Pennsylvania, Illinois, California, New York, and dozens of other states and cities.

The *right* of public employees to strike has long been a topic of debate, but it has become more significant in the last few years because public employees (at federal, state, and local government levels) have organized in unprecedented numbers. Furthermore, state and local public workers have been granted the right by state statutes to collectively bargain with public management in some 35 or more states—no federal law applies to state and local government labor relations. It is estimated that more than half of all public employees in the United States now belong to public employee unions or associations. Nevertheless, public workers and public unions are increasingly vocal, increasingly militant, and increasingly successful at the bargaining table.

The right to strike for state and local public workers is advocated by those who say no other effective means currently exist to deal with labor relations problems. The traditional civil service systems or merit systems are no longer viewed in a favorable light by these advocates. Also, proponents argue that prohibitive laws have not prevented strikes in the past and may actually have caused disputes and work stoppages. Thus, their argument goes, laws should be concerned not with prohibitive approaches but with effective ways to resolve differences that arise out of "good faith" collective bargaining. Prohibitions, especially strike prohibitions, proponents state, are hard to enforce and often complicate labor-management relations for public employees.

Proponents also state that the concept that all strikes by every type of public worker are illegal is an antiquated attitude. This argument is based on the claim that the essential services argument (that all public employment functions are essential to the proper functioning of the state) is no longer applicable. Workers in the private sector performing the same or similar tasks and supplying the same services as workers in the public sector (e.g., hospitals, transit, schools, public works contracting, etc.) are permitted to strike, while those in the public sector are not. In many cases, such workers labor side by side; but solely because of their public sector employment status, they are denied many of the rights enjoyed by their counterparts in the private sector. Because of these conditions, proponents claim that only work stoppages presenting a clear and present danger to the public health or safety should be prohibited—regardless of the status of the worker.

Proponents of the right to strike by state and local government employees also claim that "good faith" bargaining in the public sector can only be assured if the unilateral power of the public employer in setting salaries and working conditions is equalized by granting to public employees, subject to reasonable conditions, the right to strike—the same "ultimate weapon" available to workers in the private sector.

Opponents of the right to strike for public workers claim that such strikes disrupt essential services, that strike-armed public unions would diminish or eliminate civil service or merit systems, and that excessive force exercised by public unions may result in a disproportionate share of the public funds going to militant public employees—a policy decision that ought to be made by elected officials in the normal "political" way without the coercion that results from organized activity by public employees.

Traditionally the "Doctrine of Sovereign Immunity" (which holds that the state cannot be forced to do what it does not agree to do) has excluded extending the right to strike to public employees. A strike claim against the state is considered to be a derogation of the state's ultimate authority and responsibility to govern, and may actually threaten the ability of government to ensure the survival of the American political process.

Opponents of the right to strike by state and local government employees often cite the protections against discharge allegedly enjoyed by public employees under civil service or merit systems and the other tenured

A STRIKE CLAIM AGAINST THE STATE IS CONSIDERED TO BE A DEROGATION OF THE STATE'S ULTIMATE AUTHORITY AND RESPONSIBILITY TO GOVERN

protections pubic workers enjoy. Opponents also argue that government is essentially a "monopoly" and that a strike of state or local government employees leaves the public without alternatives—especially in the matter of critical services such as law enforcement and fire protection.

Seven States

Nearly all states outlaw or proscribe strikes by public employees, but seven states have granted some sort of limited or conditional right to strike for some of their public employees.

Alaska recently passed legislation which identifies *classes* of public employees who may or may not be permitted to strike. Public employees under the Alaska statute are employed to perform services in one of three classes: 1) those services which may not be given up for even the shortest period of time, 2) those services which may be interrupted for a limited period but not for an indefinite period of time, and 3) those services in which work stoppages may be sustained for extended periods without serious effects on the public.

The first class is composed of police and fire protection employees; jail, prison, and other correctional institution employees; and hospital employees. Employees in this class are forbidden to engage in strikes. If a public employer (or the state labor relations agency) can show that employees in this class are engaging or about to engage in a strike, the courts can issue an injunction, restraining order, or other appropriate order in the judicial district in which the strike is occurring or is about to occur. The Alaska statute also provides that if an impasse or deadlock is reached in collective bargaining between the public employer and employees in this class, and mediation has been utilized without resolving the deadlock, the parties shall submit this dispute to arbitration.

Class Two employees under the Alaska statute are composed of public utility, snow removal, sanitation, and public school and other educational institution employees. Employees in this class may engage in a strike (after mediation) for a limited time subject to a majority vote of the involved employees. The length of the strike is determined by the interests of the health, safety, or welfare of the public. The public employer or the labor relations agency may apply to the superior court in the judicial district in which the strike is occurring for an order enjoining the strike. A strike may not be enjoined unless it can be shown that it has begun to threaten the health, safety, or welfare of the public. A court, in deciding whether or not to enjoin the strike, must consider the total equities in the particular class of employee. "Total equities" includes not only the impact of a strike on the public but also the extent to which employee organizations and public employers have met their statutory obligations. If an impasse or deadlock still exists after the issuance of an injunction, the parties must submit their dispute for arbitration.

All other public employees in Alaska who are not included in the first two classes may engage in a strike if a majority of the employees in a collective bargaining unit vote by secret ballot to do so.

Critics of the Alaska statute argue that district courts are not particularly the best forums for the resolution of labor-management impasses. Judges and lawyers may not necessarily be any better able to resolve conflict ("impasse or deadlock") than are other impasse resolution techniques which are available. Indeed, the courtroom may only submerge the real sources of conflict because of the litigation-oriented setting and judicial overtones.

However, borrowing from the private sector's "cooling off period," Hawaii provided by statute that a sequence or series of timed actions be exhausted before a strike. Minnesota provides penalties for violation of its limited right to strike by public employees by stating that:

Notwithstanding any other provision of law, any public employee who violates the provisions of this section may have his appointment or employment terminated by the employer effective the date the violation first occurs. Such termination shall be effective upon written notice served upon the employee. Service may be made by certified mail.

Such penalties are rarely enforced in the public sector,

PRODUCTIVITY, ONCE A DIRTY WORD, IS RECEIVING INCREASING ATTENTION AS BOTH LABOR AND MANAGEMENT RECOGNIZE THE NEED TO PROVE THEIR GOOD WORKS TO THE CONSTITUENCY

however. In fact, once the strike ends one of the first agreements usually signed by both parties to the dispute is that no penalties will be enforced or required.

Other states legally permitting the right to strike by public employees are Montana, Oregon, Pennsylvania, and Vermont. Montana's legislature did not deal with the right to strike in the enabling statute passed several years ago but did include the following statement:

Employees' right to join or form labor organizations and engage in collective bargaining activities. (1) Public employees shall have, and shall be protected in the exercise of, the right of self-organization, to form, join or assist any labor organization, to bargain collectively through representatives of their own choosing on questions of wages, hours, fringe benefits, and other conditions of employment and to engage in other concerted activities for the purpose of collective bargaining or other mutual aid or protection, free from interference, restraint or coercion.

The Montana Supreme Court in 1976 ruled that "other concerted activities" included the unlimited right to strike.

More Not Less

Given that laws have not and will not prevent strikes, and given that state and local government employees are striking more, not less, what are the solutions to the dilemma? A number of ideas have been proposed recently, none of which has been tested enough to tell us if they will really work.

Sam Zagoria, director of the Labor-Management Relations Service (sponsored by the National League of Cities, the U.S. Conference of Mayors, and the National Association of Counties) has succinctly summarized some of these current ideas:

Productivity, once a dirty word, is receiving increasing attention as both labor and management recognize the need to prove their good works to the constituency. Some innovative efforts in productivity bargaining have failed to achieve permanency, but there is a growing togetherness among individual workers, labor unions and management, in trying to find ways to get the job done better and cheaper, without bargaining out the gains.

The strike—the sine qua non *of most union leaders—is proving to be not as effective a weapon as it was for the private sector unions, or even as it used to be for the public sector unions. An alternative, compulsory arbitration, once unknown, is now better understood by public management and is therefore roundly opposed. Elected officials, understandably, believe they should retain the right to say "yes" or "no" to union proposals. Arbitration removes this right of control from the parties and turns it over to the outside professional. My guess is there will be more "goldfish bargaining." ("Attitudes Harden in Governmental Labor Relations," American Society for Public Administration:* News and Views, *December 1976, p. 22.)*

The public sector is unique and, therefore, different from the private sector. Nevertheless, public employees will increasingly demand that their needs be provided for. Voters will begin to resist further tax increases and large salary and fringe benefits packages for public workers, given the state of the economy. Public officials in the legislative and executive branches of state and local governments will need to find new techniques and approaches for resolving public employee/employer conflicts.

There are a host of efforts now underway in the public sector to try to bring public management and public works together, but not necessarily at the bargaining table. The national Center on Productivity and the Quality of Working Life has reported on many of these experiments. A number of them seem to hold great promise.

Individual state legislatures need to grapple with the issues and stimulate research and experimentation in public sector labor relations by our nation's colleges and universities. Individual citizens need to apply their creativity in suggesting new solutions and better ideas.

Ultimately, however, it is the general public that must make its feelings known and must ratify new developments. As Napoleon put it (in rough paraphrase), "Public sector labor relations is too important to leave to the unions and public officials." ■

Connie Gerrard greets President Carter in White House Press Office

Following Executive Orders

"As long as there is a hard-working staff at the Press Office, we will always be the busiest office in the White House," says Connie Gerrard, executive assistant to the presidential press secretary.

Miss Gerrard (Business Education–1963) has worked in the Press Office since the Lyndon Johnson days. Front-page names such as Ron Ziegler, Ron Nesson, George Reedy, and Bill Moyers are past bosses. Carter Press Secretary Jody Powell now heads the office. She has remained in the Press Office through the changes, at least in part, at the urging of members of the press corps.

Responsibilities of the Press Office require a staff of 35 people whose duties range from working with media outside Washington to summarizing what newspapers across the country are saying about the president. Mainly, however, the office works with the White House Press Corps. This involves scheduling interviews with the president, preparing answers to reporters' queries, holding daily press briefings and, during election years, active campaigning.

Miss Gerrard has learned to think that no press inquiry is too unusual. "It is just amazing the number of things they ask about the president that you wouldn't think anyone would ask. The press wants to know everything from details about his dog and his cat, to where he buys his underwear, to who makes his suits, to who cuts his hair. Of course questions also deal with very complicated areas of foreign policy and pending legislation."

Keeping the press informed requires established procedures for dealing with information about the president's activities. There are constant opportunities for errors because of time pressures. "Even if it is on such a low level as misspelling the name of an ambassador, you have made a mistake and it hurts your credibility."

Not only does the Press Office brief the press corps, but it also works hard to keep fallacious reports out of the news. Miss Gerrard remembers "spending a whole afternoon refuting a story that CBS was going to run that was not true and seeing that it did not get on the news that night. The job is not suppressing unfavorable news, but either correcting incorrect information or keeping totally false reports out of the news."

Miss Gerrard has travelled all around the world with presidents—to places like China, Russia, Japan, India, Finland, Israel, Egypt, and Yugoslavia. "Second homes" have been Key Biscayne, San Clemente, Vail, and now Plains. (Actually the Press Office camps out in Americus, Georgia, since there are no hotels in Carter's hometown.) Even when the president is slowing down, Miss Gerrard stays in a makeshift office. "There is still work to do—the next day's schedule, putting out a release, and checking with Washington. I've been to China twice and have never seen the Forbidden City."

Seeing herself as an "implementing person," Miss Gerrard adds, "I have always supported the theory that President Johnson believed in, and that is that a good staff member doesn't try to get publicity. I've always thought that the spokespeople should do the talking. If there are facts that have to go out, then, of course, there is never any problem. But as far as interpreting policy or decisions, I am just very leery of discussing things like that."

If the New York Stock Exchange volume dips below 15 million shares per day, Wall Street and investors are going to see a "blood bath." Whether the market is actually up or down is less important than the volume of trading when it comes to "security" in the securities business, according to Ralph F. Severson, Goldman Sach's, vice-president, securities and sales.

"History would tell us that we are going to have another recession sometime—or at least a slowdown—and that usually equals dried-up volume on the exchange. We saw that in 1974 when volume was very, very low—many days under 10 million shares. When we get back into a period like that then we will see the consolidation of brokerage firms set in with vengeance."

Severson (MBA—1970) adds, "It happens very quickly because organizations that are thinly capitalized, as a lot of the securities firms are, cannot operate at a loss for very long before they seek a merger or go out of business." He says that "this may be professional ethnocentrism, but I do think this problem in our industry is going to have a huge impact on other areas of business. Since the brokerage side of a company generally has a lot of influence on the firm's thinking patterns as a whole, there will probably be a lot of pessimism among money managers."

Working in institutional sales, Severson deals mainly with large California banks that manage mutual funds and private pension accounts. He is involved heavily in block trading and deals with financial institutions' analysts and portfolio managers. Severson works closely with Goldman Sachs's research department, translating industry trends and projections into specific suggestions that meet an individual client's needs.

Based in Los Angeles, Severson frequently arranges for his clients to meet directly with the top management of publicly traded companies. Usually these client institutions are large shareholders of the stock and welcome the opportunity to sit down and discuss the company's prospects with its management. Often this helps the company's stock price because the meetings generate buying interst.

"Interestingly enough, you tend to see institutions invest in stocks in which the personalities of the top people are similar to the personalities of the institutional investors. In other words, aggressive fund-management firms tend to invest in aggressively managed companies. Of course, this is a generalization. But these institutional investors look closely at such things as the company's style as well as its goals.

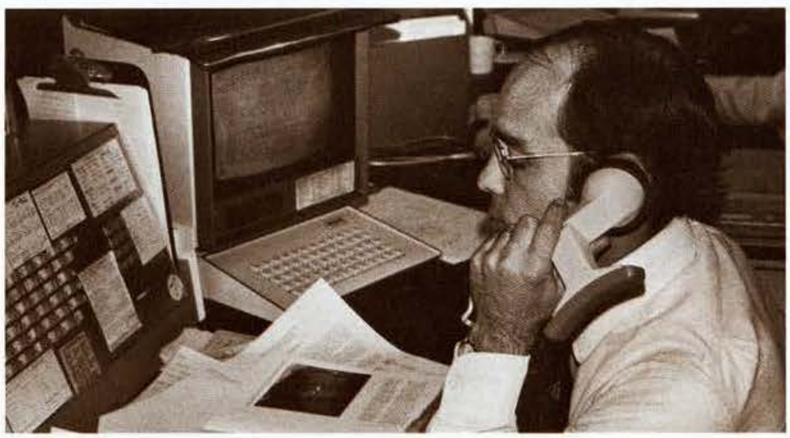
"The company is interested in the meeting because it is publicly owned and responsible to its stockholders to do what it can to gradually move the stock's price ahead without 'hyping it up.' Since a substantial portion of the stockholdings are now concentrated in institutional holdings, companies have a responsibility to communicate their activities to these institutions."

Severson and his two office partners have accounted for as much as 800,000 shares when the total daily volume on the New York exchange involved 14 million shares. His office will occasionally account for half a stock's trading volume for a period of time.

"I've tried to distinguish myself from others in the business by knowing more about companies—understanding their balance sheets and knowing what lies beneath the figures. Most people in the sales end of the securities business just take what is given to them by their research departments and pass it on. By doing more of the actual analytical work myself, I try to differentiate myself from the competition."

Trading Points of View

Ralph F. Severson confers with client in Goldman Sachs's Los Angeles office



Rethinking Your "Good Guy" Image

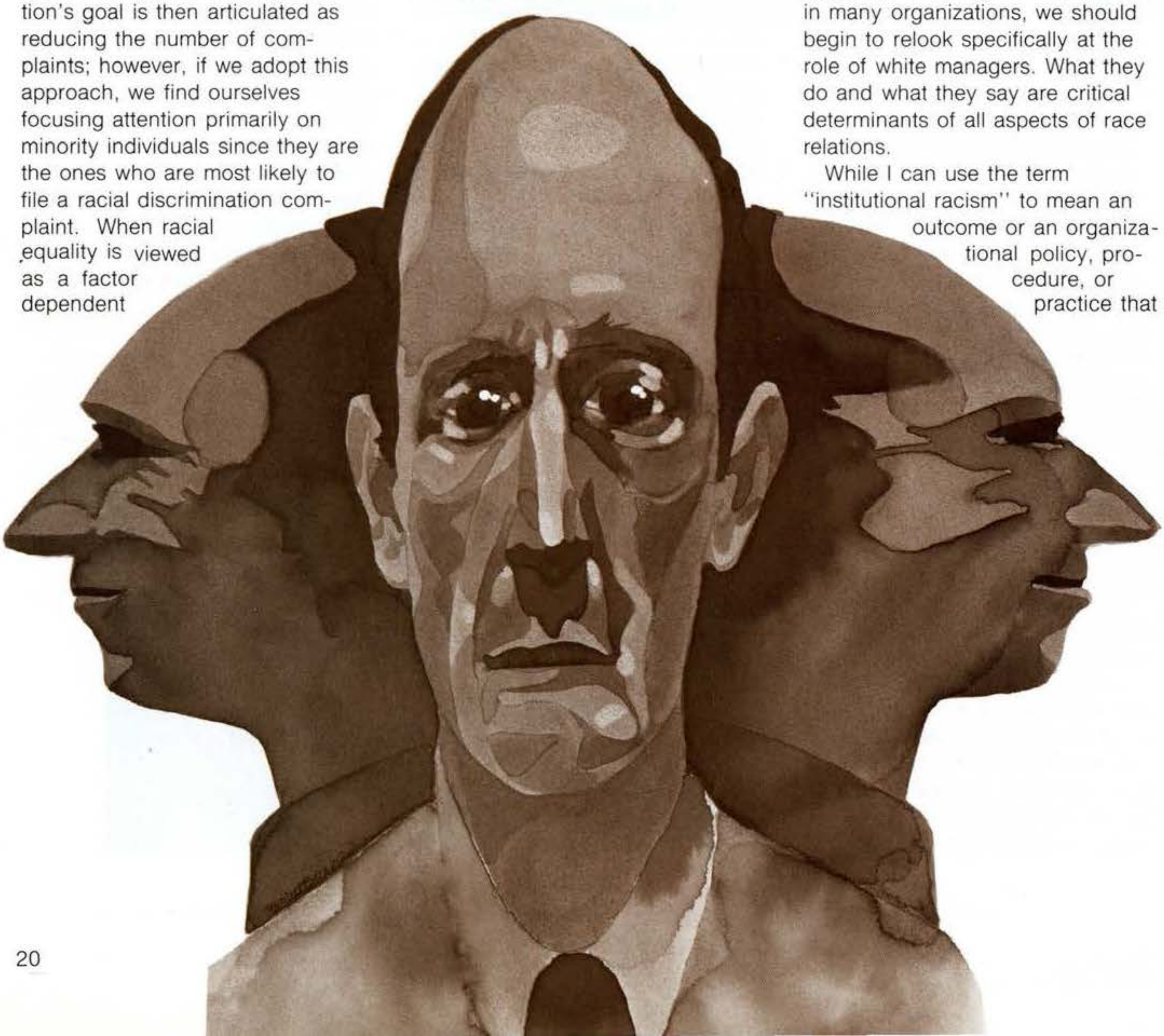
by Kate Kirkham

Attempts to achieve racial equality must recognize that the actions of both whites and minorities should be examined

Often we define racial equality in the work place as the absence of overt discriminatory incidents. Yet, more often than not, this focuses attention simply on the presence or absence of race-related complaints. An organization's goal is then articulated as reducing the number of complaints; however, if we adopt this approach, we find ourselves focusing attention primarily on minority individuals since they are the ones who are most likely to file a racial discrimination complaint. When racial equality is viewed as a factor dependent upon the total organizational climate (including all aspects of employee relations, morale, productivity, promotion policies, etc.), we must recognize that the behavior of both whites and minorities will be involved.

Much has been written on a manager's effect on organizational climate. But little mention is given to the actions that actually enhance racial equality. Since whites are often the only or majority group in management positions in many organizations, we should begin to relook specifically at the role of white managers. What they do and what they say are critical determinants of all aspects of race relations.

While I can use the term "institutional racism" to mean an outcome or an organizational policy, procedure, or practice that



Illustrated by Brent Burch

results in subordinating employees or denial of benefits based on race, the phrase itself evokes strong emotional and often defensive reactions on the part of whites. Yet, in the past, much of the attention related to race issues has been focused on what whites should *individually* stop doing—e.g., stop discriminating in hiring, stop making prejudicial remarks. This remains but one aspect of countering racism. While I have found that the absence of actions or conditions on the part of whites will result in nondiscrimination from whites toward minorities, the absence of overt discriminatory acts *alone* does not produce institutional equity.

Who Me?

In addition to examining whether or not an individual white discriminates against a minority group (or members of a minority group), it is important to examine white behaviors. Do we know what is necessary for:

— A white supervisor to identify behaviors that enhance his or her relationship with a minority employee?

— A white manager to be able to anticipate the racial implications of his or her decisions?

— An integrated work team to function at its maximum?

These abilities are needed to move past nondiscrimination toward a nonprejudicial work environment that fully utilizes all human resources. In the context of examining white behaviors, racism is associated both with any individual white behavior that directly subordinates or discriminates against minorities and with white-to-white decisions and actions that subsequently affect minorities.

For many white managers, this has meant rethinking their role. They begin to examine the outcome of their behavior beyond the individual criterion of "no one has filed a complaint against *me*, so I must be all right." They begin to ask, "How might I be contributing to racism in this organization?" If this is not understood, whites can end up defending individual nondiscrimination without producing organizational equity.

I have found that focusing on white managerial behaviors and white-to-white interaction can be misunderstood. Many whites "overpersonalize" any examination of racism. Often, while defending their good intentions, they unknowingly neglect to examine the impact of their decisions and actions. For example, a decision is made to relocate a manufacturing plant. A white manager participating in that decision may interpret this action as racially neutral. But the outcome of the decision (relocation) is such that it takes jobs away from urban minorities while creating more jobs for suburban whites. While the white manager may argue that individually he gets along well with minorities, his decisions and actions may directly contribute to racial misunderstandings.

Some of the issues and concepts that have been helpful to both whites and minorities in thinking about white behaviors can be identified. Three areas of concern in white-to-white interaction in organizations are:

1 Whether whites demonstrate an ability to look at racism in terms of white behaviors rather than focusing only on a minority behavior.

2 Whether whites go beyond the individual level of analysis to take a systemic view of racism.

3 Whether whites develop *skills* that move them from descriptions of intent to examining and changing organizational outcomes.

Realigning Concepts

First, many whites need to reevaluate their definition of the "problem" and realign their concept of responsibility. In staff meetings it can become far easier for whites to participate in discussions about the "minority problem" than it now is for them to talk about white behavior that discriminates. In discussions, it can be much more palatable to believe that if minorities wanted to achieve, they could, than it is to comprehend how whites can perpetuate policies or practices that restrict minorities. It is still harder to acknowledge responsibility for institutional equity beyond individual attitudes.

In assessing the degree to which an organization is successfully coping with the problems of achieving institutional equity, the following indicators are important:

— Are racial problems examined only in terms of the presence or absence of minorities rather than by looking at the presence or absence of institutional racism?

— Are the interpersonal, intergroup, and institutional aspects of racism differentiated so that each level is treated? Are intentional, unintentional, or colluding behaviors understood?

— Do whites have the skills to interact with others who may view them first as whites and second as individual managers?

— Do whites accept the authority of a minority person who is their supervisor?

— Do whites understand race relations in this country and the many cultures that currently make up the work force?

Understanding Implications

In the past, commitments by whites to achieve equity were often expressed through individually oriented or organizationally isolated strategies. But there is an increasing necessity for white managers to be able to anticipate the systemic racial implications of their behavior or that of others in their department.

A white personnel director, responsible for ensuring that the proper sequence is followed from recruitment to hiring, might traditionally think race is involved only if a minority applicant is turned down. However, knowing that racism requires an assessment of more than personal interaction, the director can ensure that the job description forwarded from a department lists only job-related qualifications and skills.

In addition, managers can examine how their behavior relates to others in organizational decision making. Racial discrimination not apparent in an isolated decision at one level becomes more explicit as additional levels of the organization interlock. So a procedure or practice can emerge as racist, much to the surprise of accused whites who were unaware of the racial impact of the decision beyond their box on the organizational chart.

"Linking Pins"

The issue of interlocking decisions that result in racial discrimination can be looked at through the work of Rensis Likert. One of Likert's contributions to understanding managerial behavior is the concept of the "linking pin." A linking pin is an individual who connects overlapping work groups—usually as a leader in one group (supervisor to employees) and a member of another (all supervisors in a unit). This role is important in communicating organizational goals and relaying employee needs. It can be critical in determining the extent to which overlapping levels of the organization interrelate in achieving racial equity.

A white middle manager (linking pin) must be able to articulate, especially to white employees, the actions necessary to secure equal employment opportunity, and also be able to clearly assess employee performance. Of course, a minority manager would have a similar role. Yet my experience has been that minority managers are expected to deal with race relation matters, while white managers are not held as accountable.

While the traditional concept of "linking pin" has the individual manager helping to translate organizational goals, influencing employee behavior, and providing appropriate feedback, it has not always explicitly dealt with race. In many organizations, the "linking pin" responsibilities for racial issues have been given to individuals such as the EEO director or a "special assistant."

Observable Skills

In addition, organizations that practice equal employment opportunity (legal basics) and seek institutional equity should be able to document their efforts through *observable skills and actions*. This means that if a manager says it is his or her intent to achieve equal employment, we should be able to observe this in the behavior of employees in that unit. Yet, having spent a significant amount of time attempting to change attitudes without achieving much observable work-related outcome, I now stress increasing behavioral skills. This helps to avoid individual defense of intent with its residual and often dysfunctional emotionality, placing the emphasis instead on increasing abilities to diagnose the racial implications of decisions, to articulate expected employee behaviors, to achieve equity, and to work successfully in racially diverse groups.

Understanding these areas will increase the white manager's ability to discuss racial issues as legitimate aspects of organization life without becoming immobilized. Immobilization often stems from excessive personalization of racial issues (the you-can't-say-that-because-*I'm*-not-prejudiced position) as well as denying responsibilities (or the I'm-not-responsible-for-the-behavior-of-my-progenitors stance).

I have worked with many whites who have the ability to discuss racism without always challenging the initiator of the discussion with "you're making a racial issue out of this." Such an ability assists in quickly discerning the extent to which race really is a factor. This avoids mere rhetoric and/or intimidation of whites.

It is important to note that the statistical composition of a work force is not the only determinant of racial issues. White groups can *prepare* to increase the abilities of whites to integrate effectively in racially diverse work settings.

"Oversensitive"

There are some additional factors to be explored as whites reevaluate their roles. When whites confront other whites who exhibit prejudicial or racist behaviors, my experience is that there is a reduction in white-to-minority racial tension. But if in an all-white meeting I let a remark or action that I think is racist go unchallenged or if I wait in an integrated meeting for a minority person to object, I allow other whites to see only minority individuals showing concern for racial equity. Whites who never witness other whites engaged in discussions of racial issues can end up describing minorities who do as racially "oversensitive" or "militant."

Whites who can observe and confront the behavior of other whites can prevent examples of organizational racism such as white employees bypassing their minority supervisor. In one case, a white colleague said that he would frequently talk with other whites at the same level or higher than his director (a black) to confirm his assignments.

A Collective Identity

Often whites, who expect an individual identity for themselves, will collectively address minorities. They want to be regarded as individuals, yet they will ask a black associate, "What do you blacks really want?"

White managers who understand the difference between how they see themselves and how someone else sees their behavior are an asset in achieving racial equity. A white manager who only relates to his or her individual behavior and refuses to examine the racial implications of being white frequently gets locked into overly personal defensive strategies.

It is significant to acknowledge that someone who is racially different than myself often sees me both as a unique individual and as a white with the collective implication of how he or she has experienced other whites. If I understand this dynamic, I can avoid the possible expectations of too-early openness in interracial work relationships.

In addition to insight into their own behavior, whites who have a knowledge of the culture of coworkers will assist in promoting mutual respect and effective work relations. In some situations I have been aware of individuals who demonstrate a multicultural perspective. They are able to respond to clues, behaviors, and meanings in their own cultural group and in others. These are most often minority individuals. In one organization, for example, a self-assessment questionnaire completed separately by both white and minority field staff rated minority staff members as effective in both white *and* minority communities while the white staff was rated as effective in only white communities. This difference in perceived ability had an impact on team operations, staff assignments, and supervisor's performance appraisal.

Managers, then, who can integrate antiracist actions become critical vehicles for achieving equity. I have conducted role-playing situations in which white managers have initially testified that their organizations are equal employment opportunity employers. Yet, when they were asked how they would respond to a given race-related incident, they responded only that they would call the EEO director. EEO officers, affirmative action directors, or "special assistants" should not bear the sole responsibility for achieving equity. Their presence does not eliminate direct managerial responsibility.

An additional dimension of the daily role of managers and the "linking pin" concept is noticeable in incidents of discrimination. Often the experience differs for the whites and minorities involved. For example, a minority person's involvement is often direct and immediate. He or she perceives discrimination. The whites involved do not usually perceive that they have personally discriminated. If action to rectify the situation affects whites (especially those who were not initially present in the situation), it appears even more difficult for them to accept actions taken to correct past discrimination. Unless the white manager is prepared to respond, this can contribute to charges of reverse discrimination or racial friction.

Whites' Self-Interest

To sort out these different experiences requires a manager who has a concept of the levels of racism, an ability to look at the implications of actions, and the courage to articulate those implications. It is in the self-interest of whites, particularly white managers, to incorporate these abilities so they can emerge better equipped to evaluate racial issues and white/minority performance. By doing so they are unlikely to be immobilized by the fear of being called racist.

If differences in interpersonal, intergroup, and institutional racial issues can be conceptualized, appropriate strategies are more easily determined. A human-relations seminar can be directed toward individual prejudice; a cultural-awareness course can facilitate intergroup interaction. As indicated, other efforts are necessary to address an organization-wide analysis of racism. If racism is defined merely in terms of the presence of minorities, then attention to white behaviors and preparation are not seen as legitimate for all-white groups.

Yet, by discussing the behaviors of whites as the cornerstone of institutional equity, I am not saying that analyzing these behaviors is a task for whites only. White and minority collaboration is a necessary ingredient for learning. However, white-initiated examination of the racial implications of white behavior is not now sufficient. For whites, to avoid self-examination is to come unprepared to the bargaining table of organizational racial equity. ■

EXCHANGE: SPEAKING OUT

James L. Burtle is vice-president in the Business Economics Group, W. R. Grace & Co., New York City. A graduate of the University of Chicago, Burtle has served as an economist for the U.S. Marshall Plan and for the International Labour Office in Geneva, Switzerland. In his current position, he is responsible for advising on foreign exchange policy and forecasting foreign exchange rates.

A past president of the New York Metropolitan Economic Association, Burtle is the coauthor, with the late Sidney Rolfe, of The Great Wheel, *a recent book on the international monetary system. He also serves as adjunct professor of finance at Long Island University.*

In an interview with Exchange, *Burtle discussed such subjects as the impact of floating exchange rates, the U.S.'s projected current account deficit, and attempts to stimulate world imports.*

What role has the International Monetary Fund played in the world currency market since floating exchange rates were introduced in 1971?

The International Monetary Fund is still very important on the world scene, but its role today is quite different from what it was in the 1960s. Prior to 1971, the IMF was a protector of fixed exchange rates. When the exchange rate of a particular country was threatened with devaluation, the fund would often act through short-term loans to try to prevent the devaluation unless the currency was very weak.

Today the fund is not interested in protecting rates at a fixed value but rather is concerned with how realistic the rates are. If a currency of a particular country appears to be out of line with respect to the currencies of its major trading partners, the IMF encourages the central bank of that country to allow its currency to float toward what appears to be an equilibrium rate. The lending function of the IMF is a powerful tool in encouraging central banks to bring exchange rates into line. Although the IMF is still a short-term lender, the difference between short-term and long-term loans is now probably academic because an IMF short-term loan tends to certify that the country's financial management is sound, and that, in turn, provides a basis for long-term loans from private international lenders.

Since the introduction of floating exchange rates in 1971, how have the multinational corporations responded in order to minimize their foreign exchange risks?

Most companies have added additional staff for the study and forecasting of foreign exchange rates. Many have also reorganized their accounting systems to pro-

Illustrated by Ron Eddington

James L. Burtle

A LOOK AT FOREIGN EXCHANGE RISKS AND TRADE BALANCES

vide better information. In addition, they have devoted more resources to the development of strategies for minimizing foreign exchange risks. At the same time, there has been a significant increase in the number of consultants available in this area. This is true both with respect to forecasting and to formulating strategies for foreign exchange management.

What are some of the strategies that have been adopted by various firms to control their foreign exchange risks?

The traditional strategy for handling foreign exchange risks has been the buying and selling in forward markets; that is, if you anticipated the devaluation of a currency, you would sell that currency in forward markets. Or if you anticipated a reevaluation of a currency, you would buy the currency in forward markets. Currently, many companies prefer methods other than trading in forward foreign exchange markets. One method often used is to borrow the currency that is expected to devalue, convert the weak currency into a strong one, and then wait for the devaluation. Other methods include the remittance of as many dividends as possible if a currency is weak or the reduction of accounts receivable in the weak currency. Similar types of adjustments in assets or liabilities on the balance sheet, which can be accomplished in a short period of time, become attractive. We should remember, however, that under present accounting rules, fixed assets and inventories are not affected by devaluation. According to present accounting rules, fixed assets and inventories are recorded on the books of the company at cost in the currency involved.

Let's turn to some specific questions about the U.S. balance of trade and balance of payments accounts. What do you anticipate the U.S. current account deficit to be in 1977?

$20 billion.

What about 1978?

I expect the U.S. current account deficit to be lower in 1978 than in 1977. There are some disagreements on this score, but my expectation is that the U.S. economy will grow at a slower rate in the next 12 to 15 months compared with the past 2 years. In contrast, I expect growth in Europe and Japan to pick up. The U.S. has been growing at a 5 to 6 percent rate during the last 18 months while Germany and Japan have grown at rates of 3 to 5 percent. During the next 18 months, the U.S. growth rate is likely to fall to the 4-5 percent area while growth in the German and Japanese economies is expected to accelerate above current levels. The slowdown in U.S. growth will tend to slow the rate of imports into the U.S., and the pickup in other developed economies will tend to increase the number of U.S. exports. Consequently, I'm looking for a lower deficit in 1978.

One estimate circulating is $40 billion for the U.S. current account deficit for 1978. Is that too high?

That is much too high. The U.S. current account deficit should fall next year because of the slower economic growth in the U.S. and the expected pickup in Europe and Japan. Furthermore, a $40 billion deficit would be too much for the U.S. to accept. The U.S. is in the rather peculiar position of running both a "store" and a "bank" at the same time. The U.S. "store" is buying and selling goods with other foreign countries. From that standpoint, the U.S. could say that large deficits in 1977 and 1978 were acceptable because they provided the rest of the world with the liquidity it needs to buy goods. Furthermore, the deficit could always be adjusted by a decline in the value of the U.S. dollar. But the U.S. is also the world's banker. The most important medium of exchange in world trade is the U.S. dollar, which is used by most countries to finance their foreign trade. The large deficits incurred by the U.S. represent not only liabilities of the U.S. Treasury, but, from the standpoint of many foreign countries, represent assets in the form of foreign exchange reserves. A sharp decline in the value of the dollar is hazardous because it could result in a scramble of nations now holding dollars as reserves to switch to some other currency. The current floating rate system would have a hard time accommodating a rapid move by many countries all of whom wanted to sell dollars. While the floating exchange rate system is a good system for equilibrating trade accounts, it is doubtful that it could accommodate a vast shift in the holdings of international reserves from dollars into other currencies.

Since a significant part of the U.S. current account deficit is the result of large oil imports, to what extent is this deficit being offset by OPEC dollars which are invested in the USA?

OPEC dollars are very significant; yet at the same time it is difficult to estimate the exact number of oil dollars being recycled into the U.S. economy. A rough guess would be in the neighborhood of $15 billion. This figure is approximately one-third of the $44 billion the U.S. spends for oil imports.

What are the major factors that have contributed to the U.S.'s erratic trade balance during the last four or five years?

U.S. trade has shifted from a surplus position in 1975 to a large deficit position in 1977, and another one forecast for 1978. There are primarily three reasons which underlie the swing from a healthy surplus to a deficit. The first is one we have discussed earlier. It is the strong resurgence of the U.S. economy following the 1974/75 recession and the markedly slower pickup in the European and Japanese economies.

A second factor has been the large upswing in agricultural prices in the 1973 to 1975 period, and then the precipitous decline in prices during 1976 and 1977. In 1974, corn prices reached $4 per bushel and averaged almost $3.00 during 1975. Today, the price is less than $2.00 per bushel. Soybean and wheat prices have followed much the same pattern. Within the last year, wheat prices have fallen from more than $3 per bushel to about $2.30 per bushel today. Soybean prices were as high as $8 to $9 per bushel less than 6 months ago. Today, soybean prices are about $5. Bumper agricultural crops in the United States, in Europe, and in some Asian countries have resulted in large increases in volume which have brought major price declines. Even though the volume of U.S. agricultural exports has increased recently, the volume increases have been largely offset by the large decreases in price.

A third factor contributing to the erratic trade balance has been the inability of the United States to curtail energy imports. Although the 1973 oil embargo brought a sharp reduction in oil imports for a period of time, U.S. imports of oil have soared during the last three years. Prior to the oil embargo, U.S. imports of oil totaled approximately 35 percent of U.S. oil consumption. Today, oil imports account for approximately 45 percent.

Earlier, you indicated that the growth rates in Germany and Japan would pick up during the next few months. What is the likelihood of Germany and Japan following the lead of the U.S. in stimulating their own economies in order to expand their imports and, therefore, U.S. exports?

The measures announced so far are rather timid. The Germans are concerned about inflation, and since the burden of the recession falls more on foreign workers than on German workers, the German government is somewhat cautious in reflating their economy. Japan's problem is one of shifting from an export-led growth rate to growth stimulus that is domestically oriented. The readjustment is a difficult one, and Japan is still likely to lean on exports as the growth stimulus. Germany has announced a target growth rate of 4.5 to 5 percent for 1977. It appears that the rate achieved will be closer to 3.0 percent. In Japan, the target growth rate was announced at about 7 percent. It now appears that their achievement will be on the order of 5 percent. For next year, however, various stimuli are likely to be utilized to bring the growth rates closer to the targets announced.

What could Germany and Japan do to stimulate growth?

Of course, the quickest way to stimulate growth is through tax cuts, and it may come to that. Public works as a stimulus is a much slower process. In addition, Germany does not have a large bureaucracy that can easily implement a public works program. Consequently, tax cut programs would be the most likely stimuli to be adopted.

Do you see tax cuts in the U.S. during the next year?

No. I do not think the economy will slow enough for the administration to turn to tax cuts as a method for reflating the economy. But if a recession does appear imminent, tax cuts will be considered. However, my view is that a recession is unlikely during the next 12 to 18 months.

How will the Alaskan Pipeline oil affect U.S. oil imports during the next two years?

Oil imports will definitely be affected. In addition to the Alaskan oil, we also are receiving additional oil from Mexico, and given a slower growth rate during the latter part of 1977 and through 1978, the slowdown in economic growth will also reduce the growth rate of oil consumption in the U.S. On the other hand, it would be unfortunate if these supplies lure people into thinking that there isn't going to be an energy problem in the future. This year a number of factors have come together to strengthen the oil supply situation. Not only do we have the Alaskan oil pipeline in place and additional supplies coming from Mexico, but Europe is now receiving the benefits of additional oil from the North Sea. This has all occurred in a year in which the world economy is moving rather slowly. Looking ahead, the prospects of that much increase in oil coming onstream each year, or even in a particular year, appear to be fairly dim. With higher growth rates for world economies in future years, it would be a serious error to feel that our energy problems have been solved.

As you look ahead over the next five years, what are the major challenges to the world currency markets?

One of the most important challenges facing the leading nations in the world is the determination of an international store of value. In what form are world reserves going to be held? It may turn out that world reserves will continue to be held in dollars with perhaps some diversification into other currencies. But as long as there is no internationally accepted store of value, there is always the danger of quick shifts from one currency to another. A few years ago, the major trading nations indicated a willingness to shift gradually from gold and dollars as the major international reserve assets to an international asset known as the SDR (Special Drawing Rights—these are defined approximately as bank accounts held by governments with the IMF). However, during the last decade, very little progress has occurred in implementing this idea. The new reserve unit is widely distrusted. The major economic powers are afraid that SDR's will represent a blank check which the "Third World" can write to cover its deficits with the developed nations. Consequently, the major voting nations in the International Monetary Fund have been reluctant to expand the number of SDR's granted. My view is that we should continue the process of gradually increasing the size of the SDR pool, which would increase international reserves and provide some stimulus for trade. In this way, the SDR could become the primary international reserve unit and would replace a system where most countries hold a mixture of dollars, marks, and yen and are constantly switching from one to the other.

Are there other major concerns as you look forward over the next five years?

I am concerned that there is not enough international action to rechannel or replace the world trade lost to the OPEC countries because they do not spend all the payments which they receive for their oil. Instead, as is evidenced by demands for trade restrictions, there is a serious danger that the OPEC-induced imbalances will be overcome by imposing barriers to nonoil imports. Such policies may overcome trade deficits, but this outcome would be like letting a broken arm heal without setting it properly. The world might recover from the oil crisis, but it would be with a crippled economic structure and less capability for rising productivity and economic growth and with greater vulnerability to radical takeovers of governments.

Instead of being permitted to take decisive action to create additional world demand, the IMF has been pushed into the humiliating position of having to pass the hat to individual IMF members for contributions to various emergency funds that in any case are likely to be inadequate for the requirements of the debt-ridden less developed countries which are now obliged to restrain imports while the rest of the world, outside of the oil-producing countries, has an overall trade deficit from lack of exports.

It would be much better if the IMF would substantially increase the size of the Special Drawing Right pool and thus allow the less developed countries to draw on that pool to pay off some of their debts and to contribute to maintaining their demand for exports of the developed countries. It is unfortunate that the SDR's came under a dark cloud in earlier times when the developed countries wanted the SDR's tied to foreign aid rather than viewing them as an international reserve. Of course, the developed countries were concerned that SDR's could become a major source of inflation if there weren't controls on amounts issued. On the other hand, the hat-passing routine of the International Monetary Fund is a far cry from the amount of liquidity that is needed to solve today's problems. In a stagnant economic world, it is almost inevitable that there will be additional trade restrictions rather than trade liberalization.

BOTH THE GERMANS AND THE JAPANESE VIEW THE U.S. PRODDING FOR THEM TO STIMULATE THEIR ECONOMIES AS UNREASONABLE DEMANDS. BOTH NATIONS FEEL THAT THE STIMULUS FOR WORLD RECOVERY SHOULD BE EXTERNAL TO THEM RATHER THAN INTERNAL

Putting it another way, it is understandable that major governments resist the idea that they, themselves, will be the engine of world recovery. Both the Germans and the Japanese view the U.S.'s prodding them to stimulate their economies as unreasonable demands. Both nations feel that the stimulus for world recovery should be external to them rather than internal. An increase in the size of SDR's could be an external stimulus, particularly as it provides the less developed countries with some assets for covering their deficits and also increasing their imports from the U.S. and other developed countries. The danger, of course, is that if the external stimulus were to work, people might view it as a panacea which would lead to an issue of too many SDR's and, in the end, world inflation that would be difficult to bring under control. ■

Retailing Interns Spread from Coast [I. Magnin] to Coast [Abraham and Straus]

"I've got a much greater respect for retailing personnel, especially on a management level. There is a lot more involved than I thought there was at first."

David Clark's view of the retailing industry stems from on-the-job (i.e. behind-the-counter, at-the-saleshows, on-the-phone, with-the-books, etc.) experience. Like other interns in the year-old Skaggs Institute of Retail Management program, he moved from the proverbial halls of ivy to the "real world" school of hard knocks. Now back at BYU in classes, the first group of retailing interns has returned with glowing reports of merchandising, selling, management, and a wide range of other responsibilities.

Sally Eulich, who along with Clark interned at The Denver in Colorado, was surprised at having had so much responsibility. "When I was made an assistant buyer, my buyer went to New York and I was left in charge of the whole department. I didn't expect to be an assistant buyer right off. I thought I might be used as the department *go-fer.*"

Clark described one typical day: "We were short three people in our sales area, the buyer was in New York, and we had our big monthly one-day sale. I conducted a management meeting for the book department managers from all the branch stores. The vice-president of general merchandising decided we should have a Labor Day sale, so I identified items for the sale; and because of some difficulties at the warehouse, I had to call and track down some merchandise."

Returning to the University, Craig Chambers, who worked at a Skaggs retail drugstore in Mesa, Arizona, commented on the value of the internship in relation to his education. "I now think, 'How does this fit in with what I've done in the store?' "

Research, Workshops

The internship program is one activity of the Skaggs Institute of Retail Management. Founded in the fall of 1976, the Institute was established by a grant from the Skaggs Foundation. Its objectives are to promote retailing education and research and to provide workshops and seminars for the development of retailing managers.

Each of the 35 BYU students served 14 weeks on his/her internship. Internships were located at 15 different stores in 11 states. Students were selected on three criteria: academic performance, aptitude, and interviews. Interns were encouraged to intern in stores located in their hometowns or cities where they plan to live after graduation. If the student and

by Al R. Young
Assistant Editor

At The Mode in Boise, Idaho, Dawn Keldsen checks the merchandise control panels

store management liked each other, both recognized there would be opportunities for the intern to accept a position with the store after graduation.

Prior to their internships, students studied such retailing tools as quantitative analysis, forecasting, control strategies and policies, accounting methods, statistics, economics, business management, and organizational behavior.

Following their internships, students have had an opportunity to study and evaluate current problems and topics in retail management in on-campus seminars.

Local Stores

In addition to the internship program, the Institute provides students with an opportunity to apply for part-time or summer employment from among 60 local stores. Freshmen and sophomores are encouraged to secure retailing jobs in preparation for an internship. (Currently, 63 percent of the Skaggs interns have had previous retailing experience. The Institute's goal is 85 percent with prior store work.)

According to E. Doyle Robison, director of the Skaggs Institute, interns are expected not only to work as regular employees of the store, but also to participate in existing store junior executive training programs.

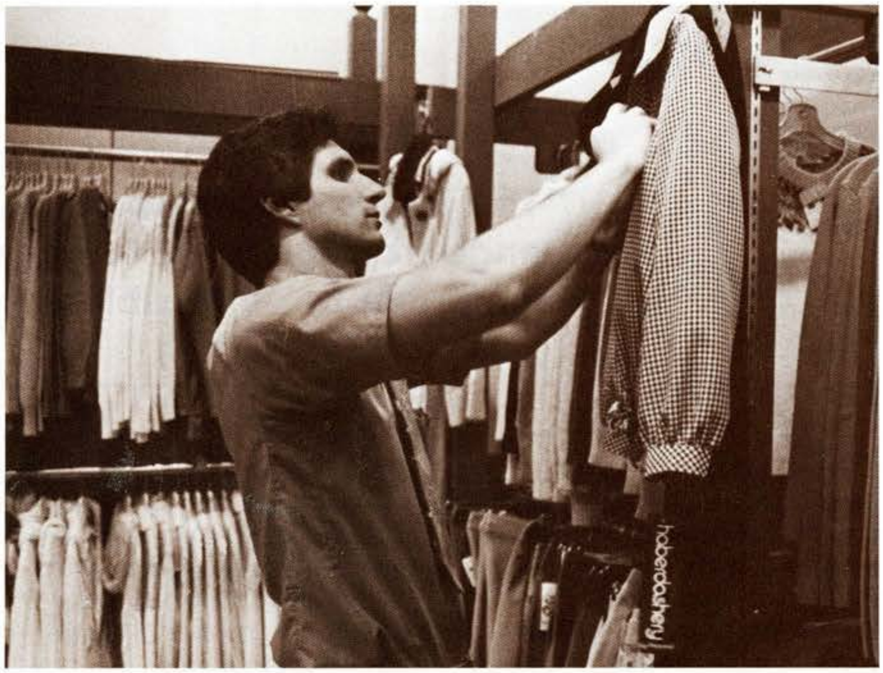
Initially it was thought that if interns were sent out during the summer and another group during Fall Semester, the stores would be satisfied. However, many stores have requested and will be receiving interns for Winter Semester. Furthermore, all stores thus far participating in the program have requested that their interns return to them upon graduation.

Utilizing Space

Jeff Kirkham, a senior majoring in business management, worked as an intern at Woodward and Lothrop in Washington, D.C. A representative from the store's Executive Development Department filed this report with the Institute:

"Jeff Kirkham's performance has been outstanding in the class-

"I had to overcome the apprehension of asking questions and understand that that was the only way I was going to learn"



New York native David Parente spent the summer at Brooklyn's Abraham and Straus

room assignments for the 1977 Summer Co-op Program at Woodward and Lothrop. He gave the accounts payable presentation to the co-op class when accounts payable managers were unable to attend the meeting due to inventory reconciliation. His presentation was thorough, professional, and very well received by the group. The paper that he wrote for the co-op program is a creative and practical analysis of utilizing floor space on the Woodward and Lothrop entrance to the Washington subway."

Kirkham himself added: "The internship is the most valuable experience I have had related to school. It was a time to be exposed to a real working condition. With this experience you either have to love it or hate it. Being in a working environment, the internship provided many opportunities to demonstrate the skills that I have been learning at school in the areas of business management, marketing, organizational behavior, advertising, and accounting. I also feel there are excellent job opportunities in this field."

A representative of I. Magnin in San Francisco where Nancy Updike, a senior majoring in fashion merchandising, worked as an intern commented that she had "exceeded all expectations of what help a trainee could provide while in a learning position. While on her assignment with I. Magnin, it was noted she actually added a spirit of enthusiasm to the floor."

Weinstock's, in Fresno, California, where Tim Hanberg, a senior majoring in business management, interned reported that he was an outstanding employee who was anxious to learn and that he worked easily with both employees and customers.

The interns also commented on the variety of assignments they received.

Tim Hanbery, BYU intern at Weinstocks in Fresno, Calif., worked in the men's department where he positioned merchandise as well as assisted customers

"The major challenge is having to change from one day to the next and being able to be flexible and adapt "

"I've learned the duties of department managers so I can take their place when they go on vacation," said Darrel Trost, who worked with Bon Marche in Seattle, Washington. "I've taken part in a major inventory, and I was transferred to a brand new store to help open it. There, I was in charge of the gift and houseware department."

Heather Leggat, a senior majoring in clothing and textiles, interned for Woodward and Lothrop in Washington, D.C. In the course of her internship she worked in the buyer's office with the buyer and her assistant. In addition, she completed purchase orders, took inventories, sorted vendor returns and handled problem items, took charge of the purchase journal, reticketed merchandise, and worked with the sales staff returning damaged goods.

Tim Hanberg's first assignment was the dock and stock area inasmuch as the managers wanted him to get a feeling for the entire store. He was then assigned to the men's department, where he gained experience working with displays and positioning merchandise on the floor. Later, he was transferred to the china and silver department to gain experience in a department with lower-turnover and higher-cost items.

Checking Books

"In that kind of a department," he said, "there is a very low inventory. A lot is on display, but very little is in the backroom. There is a lot of ordering to do, information to be checked in books, and general procedures to know. At first it was all new and, therefore, I moved slowly, requested help from other people in the department, and asked a lot of questions. I had to overcome the apprehension of asking questions and understand that that was the only way I was going to learn."

David Parente, a senior majoring in business management, worked at Brooklyn's Abraham and Straus. He was in a situation where he had to learn by expe-

A senior in fashion merchandising, Nancy Updike interned at I. Magnin's San Francisco store

In addition to handling purchase orders, Heather Leggat worked with the sales staff returning damaged goods at Washington, D.C.'s Woodward & Lothrop

rience. "It was quite frustrating at the beginning," he said, "but I feel I really learned well. It's a lot better than learning in a seminar where you feel you are *waiting* to have an experience. I don't think others looked at me as only being there a few weeks. I was treated just as anyone else who had been there ten years or more."

Dawn Marie Keldsen, intern at The Mode, Ltd., in Boise, Idaho, recalls that one of the main obstacles of her summer was accepting changes in day-to-day job assignments. "I seldom knew when I went to work in the mornings what I would do. I worked where I was needed," she said.

Nancy Updike also commented on the need to be flexible: "The major challenge is having to change from one day to the next and being able to be flexible and adapt."

Sharing Information

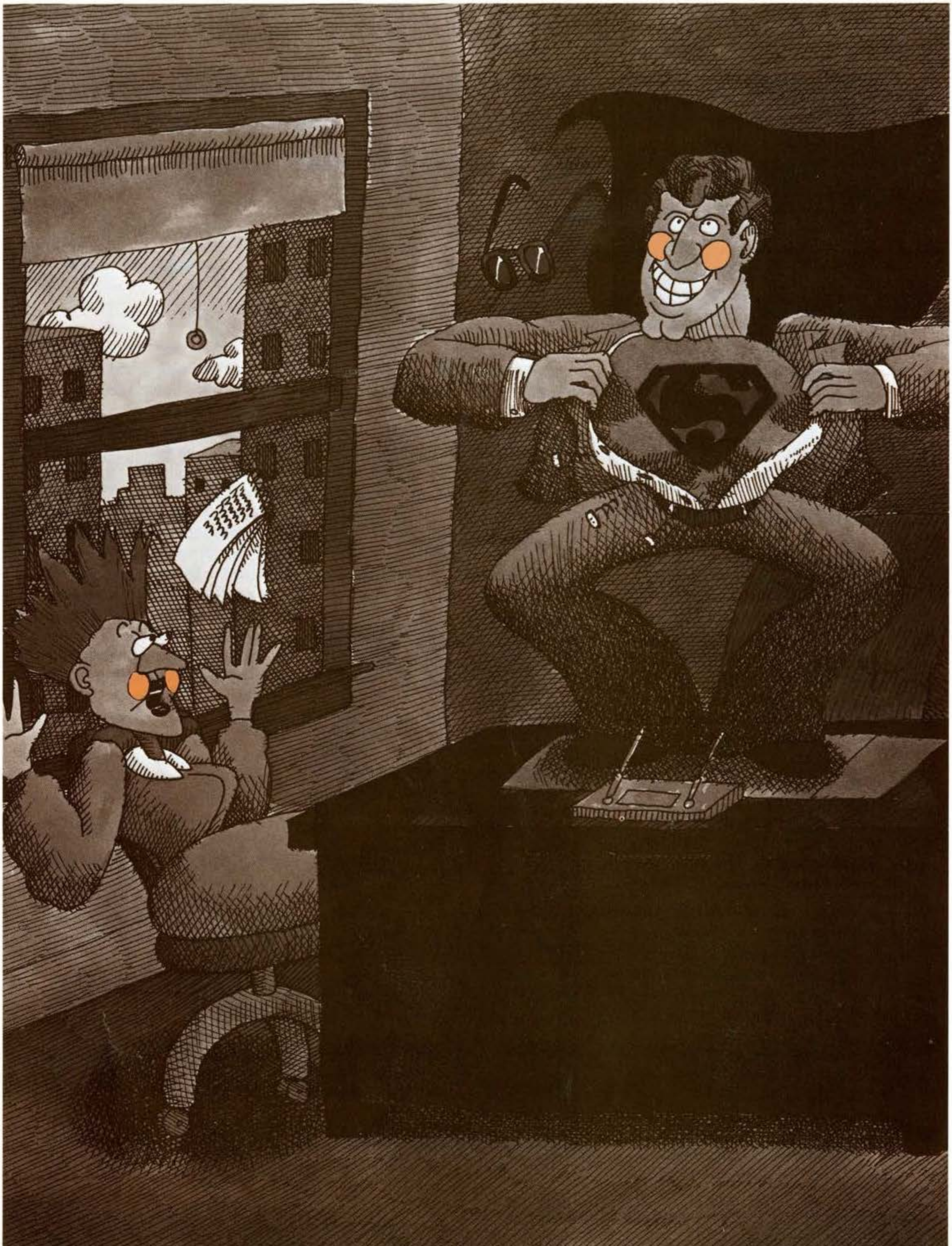
In addition to the varying nature of the assignments each intern faced, there were a variety of lasting impressions for each one.

Parente spoke of the environment among the workers in his department as being almost like a family that works overtime to solve problems.

Hanberg said that as a result of his internship he was able to see how store managers and executives work together and share information. "This is something," he said, "that a regular employee does not experience."

Joe Nelson, an intern with a Skaggs store in Anaheim, California, recalls that his previous retailing experience had been "on the other side of management. But now I've asked a lot of questions. Before, I never knew what the management was really thinking. Now I've not only come to recognize their problems and conflicts, but I understand and share their objective. I couldn't get that in a text."

David Clark, checking phone orders, was named assistant buyer at The Denver in Denver



MANAGERIAL HEROISM

Roman R. Andrus

Heroism is inspiring. Legend, folklore, and history thrill us with stories of courage, decisiveness, and valor in the face of adversity. We marvel at the greatness of heroes in overcoming "impossible" odds.

When contrasted with the bigger-than-life images of our heroes, there is a certain incongruity in suggesting that real people, in three-button suits, act heroically while performing professional functions. Yet, "heroic" seems an appropriate description of many successful managers.

A 'heroic decision-maker," a term coined by Swedish marketing professor Caj-Gunnar Lindstrom, is one who must make decisions under time pressure and with limited information. Managers cannot afford the luxury of indecision and "all the facts."

Confronted by an ever more complex environment, a flood of available information, and an increasing pace of competition, the manager must act before he has complete information. And, because of time pressures, it is simply impossible to analyze all the available information on all possible options and outcomes.

The press of time is an integral part of management in a viable organization. There are decisions to be made, issues to be handled, and opportunities to be explored. In fact, the existence of such demands is characteristic of an alive, ongoing organization and its management. If there is no urgency, no press of decisions and issues, the organization is usually floundering. More complete information may be available at universities and research organizations. But in operating firms using finite resources in pursuit of ambitious goals, the collection of complete information is synonymous with suboptimization.

"Heroic" management must be pragmatic in responding to problems. The goals of optimally using available time, as well as achieving optimal results, are paramount.

The manager must find ways to dispose of insignificant items in order to insure that significant issues receive adequate, timely attention. The heroic manager must also channel information and problems to those points in the organization where they may best be handled.

Choose Your Problems

Since it is not possible for a manager to solve all problems, he or she must screen, delegate, avoid, or selectively deal with confronting issues. To do this, procedures must be developed for disposal of problems which are not selected for attention. An important part of managerial learning is the development of skill in: selecting problems for attention; disposing of problems not selected for attention; and using experience to solve selected problems.

The "exception principle" is useful in identifying problems. Under this approach, informational inputs are only considered if they fall outside of expectation tolerances. Examination of exceptions is useful for evaluating feedback from previous decisions as well as for screening environmental observations, such as competitor market share, shelf facings, or any other noncontrollable factor for

Illustrated by Ron Eddington

which management has expectations. (As used here, the concept of exception consideration is much broader than commonly used in production quality control.)

Management uses exceptions as the basis for selecting problems for attention. Where received information is not consistent with expectations, the manager is aware of the existence of a problem (or opportunity). Feedback, data searches, and unanticipated informational inputs also modify expectations through identifying new situations, constraints, and opportunities which change the status quo. That is, information is screened to identify operational problems, and it is also an input for the formulation of the tolerances that are used in screening other information.

The Art of Stalling

When exceptions are identified, it is necessary for the manager to dispose of less significant problems. In doing this, he or she has many alternatives available:

Exceptions may simply be ignored or receive no action. This treatment is appropriate if the impact of the exception is inconsequential, or if it demonstrates a need simply to change screening tolerances.

Exceptions may be rationalized. The variety of reasons for this may or may not be valid and might range from not understanding the problem, to personal inhibitions to action, to a lack of confidence in exception-reporting data or mechanisms.

Postponing the problem or delaying the decision is logical when more pressing problems require the manager's attention, or when additional information may be anticipated.

Transferring the problem generally follows one of three forms: delegation, relocation, and "buck-passing." Delegation, when used correctly, is an effective way to extend abilities—supplementing them through using lower-cost personnel and equipment. (Some routine decisions may be delegated to a programmed computer.) Delegation is possible if the delegatee is capable of identifying and evaluating alternative solutions in a manner consistent with the goals of the delegator, or if alternatives and evaluation criteria have previously been formulated. In this case, what remains is simply a clerical function which, if not delegated, would represent inefficient use of managerial time and talent.

Passing the Buck

Relocation (transferral "out"—usually to another department) is commonly a horizontal move. It is appropriate when another manager or organizational unit has more experience or specialized facilities for handling the problem. In actual practice, it is often difficult to distinguish between justifiable problem relocation and buck-passing.

Buck-passing (allowing decision responsibility to fall elsewhere) may be justified if it frees the executive to use his time and talents more efficiently. However, it is often simply a device for avoiding the dangers of being responsible for a decision. Obviously, taking the responsibility for a decision makes the decision-maker vulnerable to possible criticism. Criticism comes cheaply. Perceptive managers are aware of the pitfalls attendant to decision-making, and most are very able at transferring problems.

To again stress, methods of problem disposal will be influenced by the significance of the problem, time pressures, possibilities for gaining additional experience, recognition of more pertinent solution capabilities elsewhere, and jeopardy associated with the problem.

Experience Counts

Experience, the major managerial asset for solving problems, is the result of viewing the consequences of past actions. Learning builds "reservoirs of experience." Managerial learning, whether direct or vicarious, is the basis for solving problems that are not disposed of otherwise.

It becomes evident that a manager must have some basis for identifying and evaluating alternatives if insufficient time and information are available for decision making. Commonly he relies on his experience. Obviously experience is a valuable, if not indispensable, asset to management as well as an important criterion in management selection.

Learning modifies an individual's behavior in accordance with the outcomes of his or her previous behaviors. Learning adds new reservoirs of experience. Yet, to generalize proven responses of the past to fit new problem situations is a pragmatic (and often intuitive) substitute for seeking new information.

There are a variety of areas in which this is applicable to modern business and marketing management. Managers build reservoirs of experience relating to organizational survival, delegation, decision making, leadership, etc., and to anticipated outcomes related to specific customers, employees, products, technologies, etc.

Rewards and Penalties

To more closely examine the learning process, we can define it as the modification of behavior resulting from receipt or storage of information. The most common form of learning is through directly experiencing the consequences of behavior (reinforcement). We may also learn through the consequences experienced by others and through generalization or cognitive extension from other experiences. These three sources increase the reservoirs of experience (learning) which influence behavior.

Direct experience. For every action, there is some consequence. Consequences may range from opportunity losses to direct rewards or penalties. When these consequences are perceived, they become a part of the

learning of the individual. These stored perceptions of effects (reinforcement) will influence future behavior. The more extensive and consistent the stored reinforcement, the greater the probability of developing consistent behavior (forcing habits). The less consistent the reinforcement, the lower the probability of predictable behavior. When there is little consistent reinforcement stored against which to estimate the effects of an anticipated act, it may be expected that additional experience or reinforcement will be sought in order to validate decisions.

Vicarious or observed experience of others may be sought when direct experience is not available. There are obvious economies in learning or storing perceived effects through the experience of others. Utilization of vicarious experience avoids the penalties and mistakes of direct experience. It also means that a wide range of options and outcomes may be identified in a relatively short period.

There are a wide variety of informational inputs available to management through which they may gain vicarious experience. This is the goal of all management education. Vicarious and observed experience gathering is the purpose of marketing and other forms of business research. However, direct and vicarious experiences are frequently not directly applicable to the decisions confronting management. It is often necessary to infer expected outcomes of behavior.

Cognitive reinforcement and generalization. Where direct or vicarious experience is not specifically applicable, it is necessary to find similarities or project from available experience. These cognitive activities, involving both inductive and deductive analysis, also add to the reservoir of experience and influence future perceptions.

Time vs. Decisions

What remains is that modern managers must be "heroic." That is, they must make decisions with limited time and limited information. In order to optimize the results of their efforts, managers must dispose of problems in a variety of ways. Problems must be carefully screened before consideration. Less significant problems may be ignored, rationalized, postponed, or transferred. Where possible, experience is used in solving problems. Experience reservoirs are a function of managerial learning through direct feedback, observed experience of others, and cognitive reinforcement and generalization. However, all problems do not lend themselves to disposal or solution through the application of experience and time management. Enlightened managers should turn to marketing research, forecasting, long-range planning, and other data-producing activities to find solutions for remaining problems.

A MEDIA PRIMER For Managers

BY JOHN A. TAYLOR

In large marketing organizations with multiproduct responsibilities, a corporate person or staff maintains liaison with the organization's advertising agencies. In both large and small companies, advertising agencies are expected to handle all media details, including helping to develop media support budgets; preparing recommendations for national, local, and test-plan operations; readying artwork and copy; purchasing space and time; controlling and distributing advertising materials; verifying that planned support actually ran as scheduled; paying media; measuring media impact in reaching the selected audience; evaluating the cost efficiency and effectiveness of media support elements and total plans for individual products or activities; and interpreting the myriad details to the satisfaction of the client organization.

The level of complexity reached in these various functions depends on the experience and expectations of client managers and the expertise and initiative of the advertising agency personnel. Yet it is vitally important that managers and their media advisers—however they interact—speak the same language.

Long-established marketing organizations and their advertising agencies have conquered obstacles in the selection of media and the measurement of media performance. As a result, a useful and standardized vocabulary—the jargon of media supervision—has been developed.

With the increasing importance of media in our society (newspapers, magazines, television, radio, etc.), many media terms are familiar to lay individuals as well as to managers. However, even within client/agency circles, confusion about the meaning of some words and phrases occasionally hampers perfect communication. This obfuscation will continue as words are coined to serve changing needs. The lexicon of media terms is not immutable.

Nevertheless, following are a few selected topics, phrases, and brief descriptions used by key media research organizations. These are basic to understanding current media relationships. The importance of understanding media relationships is clear in view of the fact that advertising in the United States in 1975 accounted for $28 billion in marketing support activities.

Total U.S. Advertising Expenditures: Of the $29 billion invested by advertisers in 1975 (the most recent year for which data are available) $15 billion was invested by national and $13 billion by local advertisers.

Major Media Expenditures: Of the total U.S. advertising expenditure (national and local), 66 percent backed major media, while the balance included direct mail, transit (bus, taxi, subway, etc.), telephone directories, business premise, outdoor, production expenses, etc. This is the breakdown of major media expenditures (totaling $18.6 billion): newspapers, 45 percent; television (network and local), 29 percent; magazines (consumer, farm, business), 13 percent; radio (network and local), 11 percent; outdoor, 2 percent.

National Advertising Expenditures (excluding local, and the "balance" activities noted above) account for about $7.9 billion allocated as follows: television, 60 percent; magazines, 18 percent; newspapers, 14 percent; radio, 6 percent; outdoor, 2 percent.

Top 100 National Advertisers: Of 1975's $7.9 billion national advertising expenditure, $4.3 billion was invested by the top 100 corporations in the following manner: television, 68 percent (network, 43 percent; spot, 25 percent); magazines, 14 percent; newspapers, 9 percent; radio, 6 percent (spot, 5 percent; network, 1 percent); and outdoor, 3 percent.

Advertising Support Appropriations: As a matter of interest, an average of only five cents of each sales dollar is appropriated by major U.S. companies for advertising support.

Network Television may be conveniently defined as both the confederation and operation of a group of television stations, geographically dispersed throughout the U.S., which broadcasts programs originated by a network during prescribed periods of the day. The major networks are ABC, CBS, and NBC, with regular network stations and independent stations occasionally linking up to provide sports coverage or other special program fare. Announcements placed by national advertisers in network programs are generally intended to blanket the nation.

Spot Television: Announcements (spots) are bought by national or local advertisers through representatives of individual television stations. Spot provides the flexibility to vary support in line with local business needs including seasonal, promotional, or trade support requirements. For a national (network) advertiser, spot may be regarded as controlled incremental weight.

Newspapers account for only 14 percent of total national advertising expenditures and 9 percent of each dollar of the top 100 companies. However, including both national and local activity, newspapers are the dominant advertising medium, representing almost one-half (45 percent) of *all* dollars spent. This reflects the tremendous importance of newspapers to local merchants. In 1975 total newspaper expenditures were about $8.5 billion, contrasted with only $5.3 billion for television (spot and network), the next leading category.

Competitive Advertising Activity and Expenditures: Advertisers are keenly interested in the activity and expenditures of their competitors on a national and local basis. Such information is used in establishing their own annual advertising budgets, serving as a "trip-wire" in signaling the need for defensive support, and checking competitive reactions to national, local, and test activities. A large number of private and industrial research organizations are involved in collecting and publishing data used for such purposes. The following are among the key media research organizations:

Audit Bureau of Circulation (ABC) audits, analyzes, and reports the circulation and mode of distribution of newspapers and consumer and business magazines.

Advertising Checking Bureau (ACB) maintains surveillance of all U.S. publications and provides advertisers with tear-sheets and estimates of cost expenditures for ads or campaigns running on a local or national scale.

Advertising Research Bureau (ARB) measures network and local radio and TV audience in over 200 markets, based on diaries maintained by a sample of households.

Broadcast Advertiser's Reports (BAR) monitors national TV networks and major TV stations in 75 markets, issues periodic reports used by advertisers to verify that their own announcement schedules ran as ordered, and checks competitive activity in the same markets.

Burke conducts research designed to check the communicative effectiveness of advertising copy.

Leading National Advertisers (LNA) collects, reports on, and is the principal source of information on the dollar amount spent for newspaper advertising..

A. C. Nielsen Company provides a variety of market research services, including television audience measurements on a national and local scale. Of immediate interest is the Nielsen Television Index (NTI) which reports the audience magnitude of national network television programs, based on a sample of nearly 1,200 households. The Nielsen Audience Composition (NAC) reports the demographic characteristics of national network television program audiences. The Nielsen Station

Index (NSI) reports on the local audiences achieved by national and locally originated television programs in over 200 markets.

Pulse conducts research in about 250 markets and issues periodic reports on radio listening, based on personal interviews with respondents.

Daniel Starch conducts newspaper and magazine ad recall research for its clients.

Radio Expenditure Reports (RER) is an industry source for estimates of national spot radio expenditures.

Penetration: At present there are approximately 73,100,000 households in the U.S. (excluding Alaska and Hawaii). Of these households, 71,200,000 are equipped with one or more television receivers. Thus, the percentage of total homes with access to TV is 97.4 percent. This is television penetration. Color TV penetration is about 70 percent. More than 40 percent of all homes own more than one TV set. About 15 percent of all U.S. households are served by community antenna (CATV) systems, whereby remote channels are picked up by a master antenna and fed via cable into subscriber homes.

Coverage, as a broadcast concept, is defined as the number of households in the geographic area within range of the broadcast. Thus, coverage can be related to the area served by an entire network, or by a local station.

Designated Market Area (DMA) is an A. C. Nielsen Company definition of television market coverage, in which virtually all U.S. counties are assigned, without overlap, to the television market which accounts for most of the viewing done in homes in the area.

Area of Dominant Influence (ADI) is the nonoverlapping television market coverage definition of the American Research Bureau (ARB).

Day-Part is a conventional breakdown of the broadcast day used principally by the television industry to readily classify local (spot) participation: morning (sign-on to noon); afternoon (noon to 6:00 p.m.); early fringe (prior to 7:30 p.m.); prime access (7:30-8:00 p.m., a half-hour of prime time programmed by local stations per FCC rule); prime evening (8:00-11:00 p.m.); late fringe (11:00 p.m. to sign-off).

Audience is a measure of the absolute number of units (persons, households, etc.) exposed to an advertiser's message. In broadcasting it could be defined as the audience for an entire program or for an individual commercial.

Rating is a basis for describing the audience as a percentage of the total audience potential. If total U.S. TV households are 71,200,000 (100 percent), a program with a 25 rating (percent) would reach 17,800,000 TV households.

Gross Rating Points (GRPs) present a summation of the effort directed toward a selected audience, usually in a four-week period. Use of a network TV program delivering a weekly rating of 25 would yield a four-week GRP total of 100 (assuming use of only one commercial per broadcast), or message delivery equivalent to the total number of TV households in the area. Use of a variety of network programs and/or spot could generate a GRP total of any magnitude.

Share expresses the audience at a specific time or to a specific program as a percentage of the total households with their sets turned on (HUT).

Homes Using Television (HUT) represents the percentage of total homes viewing TV at a particular moment or during a particular time period.

HUT/Share/Rating are interrelated. If on a particular occasion the number of U.S. households viewing TV is 68 percent, and the ABC Network's Share of Audience (percent of HUT) is 37, the rating (percentage of total homes viewing the specific network program) will be 25. HUT X SH = RTG. RTG ÷ SH = HUT. RTG ÷ HUT = SH. These relationships are used on a national or local basis for evaluating television program performance. They are also used in forecasting the *future* rating performance of network programs, based on the track record of HUT and audience share.

Sampling is the basic media premise that a carefully drawn sample of television households can disclose reliable information about the viewing habits of all U.S. television households. The validity and statistical accuracy of properly conducted sampling is widely accepted. In principle, it is the same procedure used by cooks to check the taste and texture of a pot of soup by sipping only a spoonful after stirring. The A. C. Nielsen Company's sample used to predict the behavior of over 71 million TV households consists of 1,160 homes.

Statistical Confidence (Sampling): On October 31, 1976, the ABC Sunday Night Movie was "Live and Let Die." Between 9:15 and 9:30 p.m., EST, the ABC Network enjoyed a rating of 25; i.e., 25 percent of all U.S. TV households were in the movie's viewing audience. Based on Nielsen's sample size, the in-built standard error of the 25 rating estimate is about 1.4 points. Thus, chances are 68 out of 100 that a probability sample of this size will yield a rating between 23.6 and 26.4 if the true rating is 25. Chances are 95 out of 100 that the rating will fall between 22.2 and 27.8. The 25 rating estimate is a most acceptable center between narrow swings of the accuracy pendulum, and we confidently accept the fact that 25 percent of U.S. TV households were watching "Live and Let Die."

Reach is a term used to describe the number of households or individuals exposed to an advertising message one or more times in a four-week period (unless otherwise stipulated). A heavy campaign consisting of network participations and spots might deliver 400 audience GRPs in four weeks, a number equivalent to 400 percent of the audience base. This is not to say that each household in the audience base was reached four times. No doubt many homes did not see the campaign commercials at all, while many others saw the commercials many times. The number of *different* homes reached is ascertained through use of formulas derived from a large body of experience based on actual tabulations of viewing. The reach (or net reach, or unduplicated audience, etc.) of a 400 GRP campaign might be 80. In other words, 80 percent of the total television households saw one or more messages during the four weeks.

Average Frequency is derived by dividing reach into GRPs. The yield expresses the average number of times each household reached was exposed to a particular announcement. Remember that frequency is an average and ranges from one exposure in four weeks up to a theoretical exposure to every spot and network participation that ran during the four-week period.

Reach/Frequency/GRPs are interrelated concepts. If GRPs = 400, and reach = 80, then average frequency will be 5.0. R X F = GRPs. GRPs ÷ R = F. GRPS ÷ F = R.

Messages per 100 Households is synonymous with GRPs but represents a slightly different view. If the total audience capable of viewing the campaign (coverage) is thought of as being separated into exactly homogeneous units of 100 homes each, then each such unit will receive a total of 400 messages within the four-week period. However, only 80 of the homes would actually have been on the receiving end of the campaign in the example we are following, and each of the 80 homes would have seen a commercial an average of 5 times.

Efficiency/Cost per Thousand (CPM) is the useful relationship between the cost of advertising and the audience reached. Efficiency (cost per thousand homes, persons, etc.) is obtained by dividing the cost of a network commercial, for example, by the gross audience. A 10-rated daytime network program delivers 7.1 million TV households. If the cost of a 30-second network commercial is \$10,000, the cost per thousand homes delivered is \$1.41 (\$10,000 ÷ 7,100 = \$1.41).

Cost per Rating Point (CPRP) is used by some advertisers in establishing media budgets nationally or locally by setting rating point objectives. CPRP is derived by dividing cost by GRPs (Cost ÷ GRP = CPRP).

Effectiveness: Efficiency analyses are theoretical appraisals of audience responsiveness to advertising messages, but shed no light on the communicative effect of the messages or their memorability. Such qualitative evaluations must be drawn from other types of research.

Apples and Oranges: In evaluating the impact of advertising, many approaches to combining television and print audiences have been devised. However, no truly successful technique has yet been demonstrated for adding television and print messages to yield a meaningful total for analytical purposes. While two measures of television plus one measure of print may equal three measures of advertising, it is clear that they are not equal (qualitatively or quantitatively) to one measure of television and two of print. On the other hand, methods have been developed for projecting the net unduplicated reach of combined TV and print campaigns. This approach does not deal with effectiveness, however.

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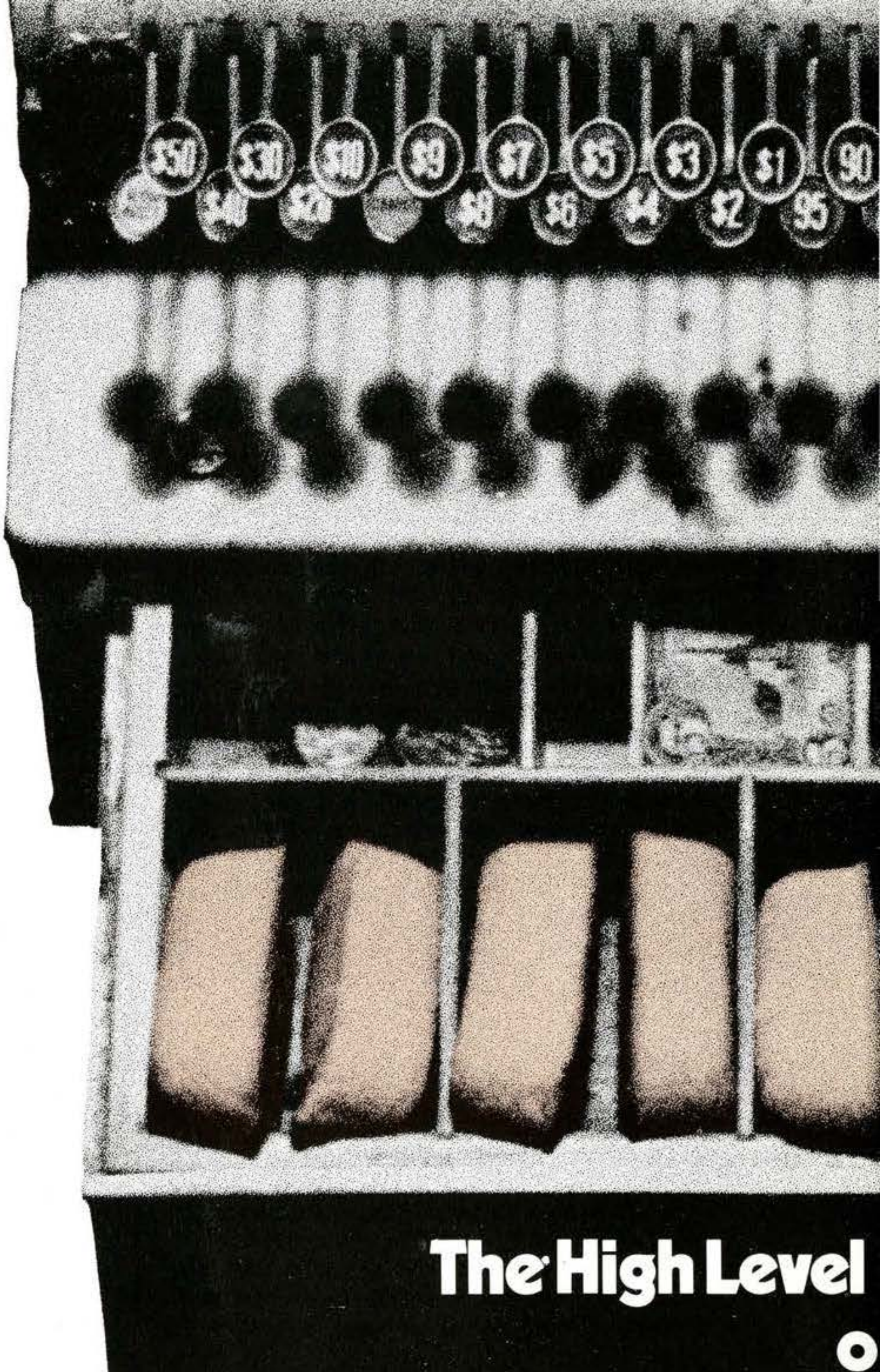


The High Level o

Pay Me Twinkies

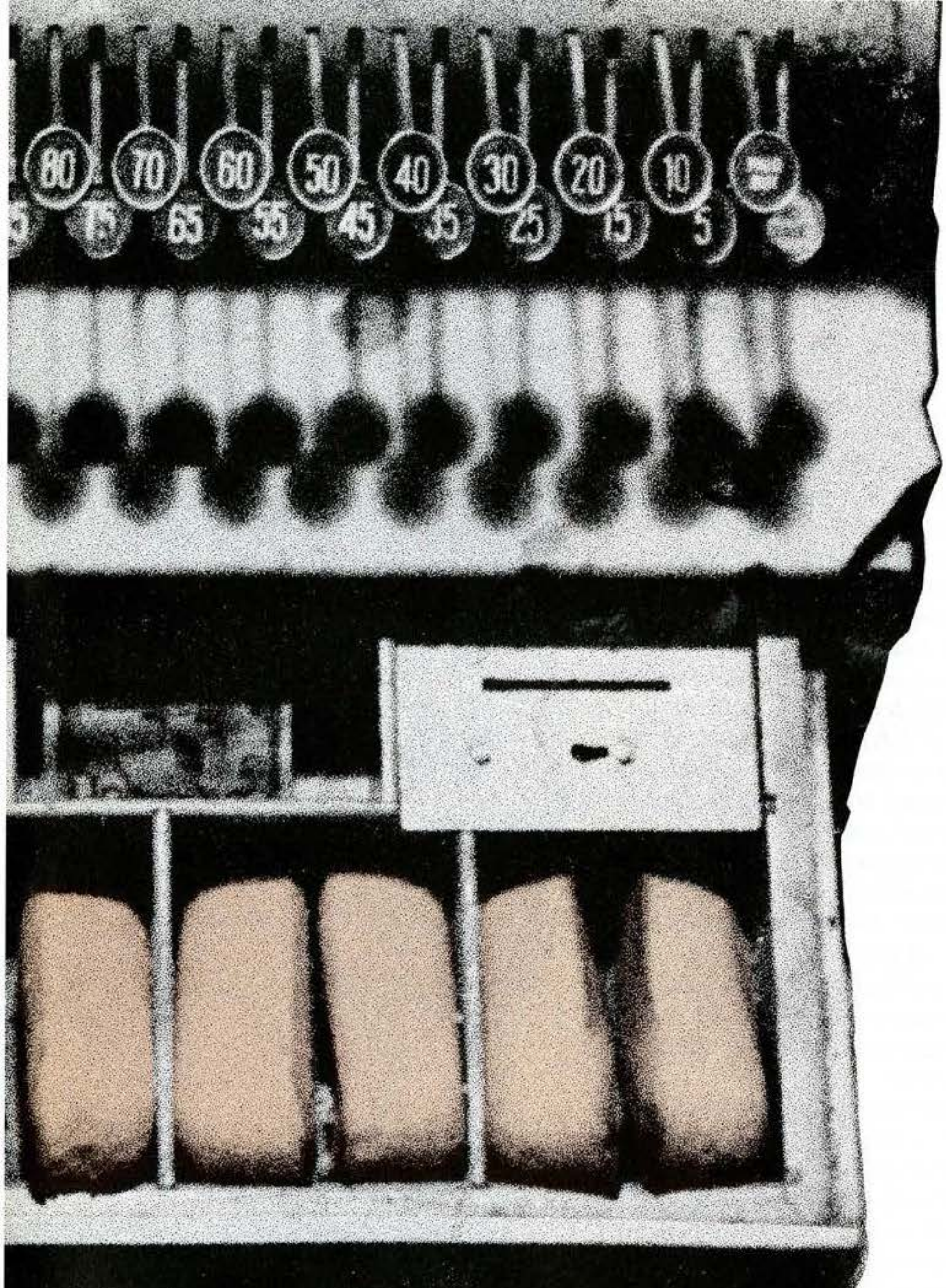
By Stephen D. Nadauld

In 1964 the average interest rate on FHA new-home mortgages was approximately 5.5 percent and the rate on one-year federal government notes averaged 3.8 percent. In 1974, ten years later, the FHA rate had risen to 9.5 percent and the government note rate was 8.25 percent. Whether we are aware of these particular numbers or not, most of us have had occasion to say in our best Jim Naboresque, "Gol-lly, interst rates shore are high!"

From time to time someone concerned about the level of interest rates approaches me and says, "Professor, you know about finance [their first questionable assumption], why are interest rates so high?" Usually, my initial reaction to such a question is to acknowledge their good judgment, turn, in my mind's eye, to page one of the lecture notes, push automatic pilot, and begin the "dump." The result is always the same. After ten minutes of polite boredom, the subject is changed to sports, and we both enjoy the rest of the conversation.

Recently I hit upon a more efficient approach. When asked about interest rates I simply reply—interest rates are high because the price of Twinkies just went up again. The listener then laughs nervously and changes the subject to sports, and I eliminate the mental dump-time and charges. When pushed by a persistent inquisitor, I am forced to explain that the level of interest rates and the increase in the price of Twinkies really are related.

In order to demonstrate the relationship (which is a serious one), consider the following example: Suppose on January 1 you had been approached by your brother-in-law who wished to borrow \$100. And, in a festive mood, you agreed to the loan but stipulated that this year you would not lend



# of Interest Rates
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Back in -Please!

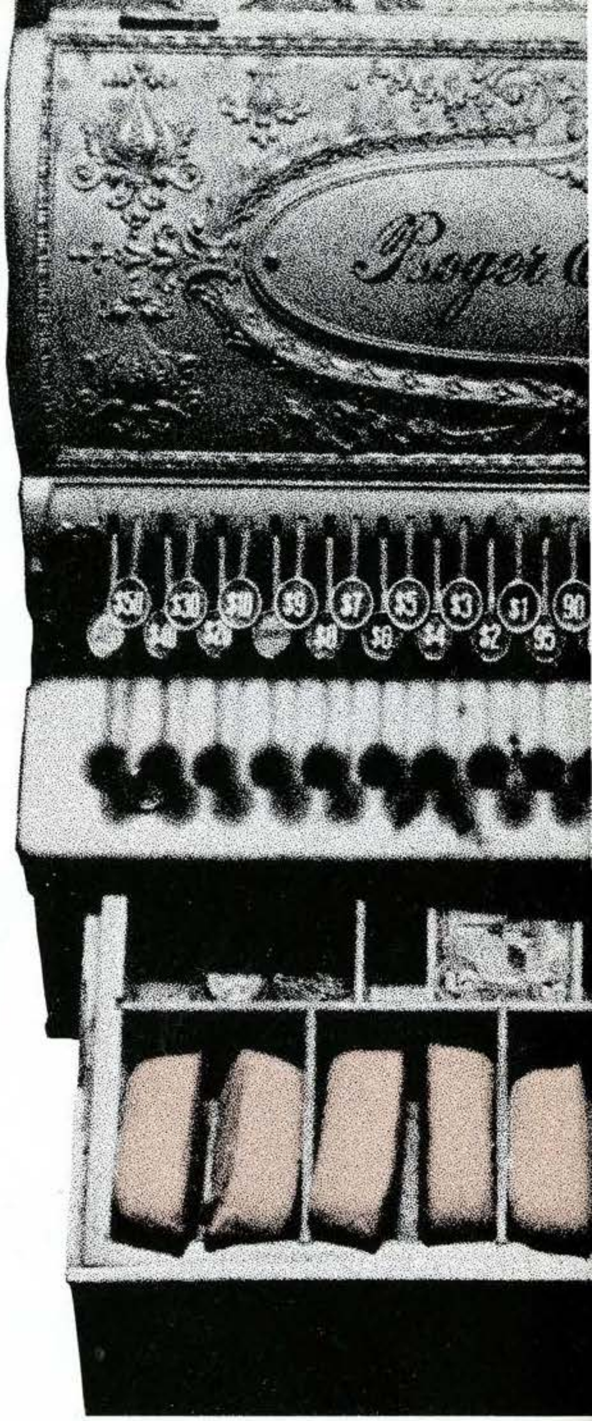
money, but twinkies! Suppose for the sake of this illustration that the loan was made from your stock of industrial-sized twinkies. (These are special oversized twinkies made for the gourmand market and priced at one dollar per twinkie.)

After some negotiation you agreed to lend 100 twinkies for one full year if the borrower agreed to pay back 105 twinkies at the end of that period. The loan, therefore, carries a one-year twinkie rate of 5 percent. The five twinkies may be thought of as a reflection of your preference to put off consuming 100 twinkies this year in order that you might be able to consume 105 twinkies the following year.

The key to this example is to note that the interest rate is denominated in twinkies, not in dollars. Of course, the loan can be translated into dollar terms by recognizing that lending 100 twinkies at one dollar per twinkie is equivalent to lending \$100. Five twinkies of interest is equivalent to \$5 of interest, and \$5 of interest on a \$100 loan is a rate of 5 percent interest in dollar terms. So what difference does it make whether the loan is in dollars or twinkies?

It doesn't make any difference—unless the price of twinkies changes. However, that is precisely the point—the price of twinkies does change.

To complete the example, consider the impact on the loan of an increase in the price of twinkies to \$1.10 per twinkie. If the loan is paid back in twinkies, the rate is still five twinkies per 100. However, if the loan is translated into dollars at the new price, a repayment of 105 twinkies at \$1.10 per twinkie means a total payment of \$115.50. In dollar terms the brother-in-law is borrowing \$100 and repaying \$115.50, which



makes the interest rate 15.5 percent.

In the example there are two rates of interest; the twinkie rate of 5 percent and the dollar rate of 15.5 percent. The difference between the two rates is a direct result of the change in the price of twinkies. The relationship between interest rates and price changes was observed by economist Irving Fisher and can be simply expressed as follows:

Let i = the dollar rate (sometimes called the nominal rate)

r = the *real* rate (in our case the twinkie rate)

$\triangle p$ = the rate of price change ($\triangle$ being the Greek symbol for change)

The relationship is then

$$i = r + \triangle p$$

In other words the *dollar* interest rate on the loan is equal to the *real* rate plus the rate of price change. For our example:

$$r = 5\%$$
$$\triangle p = 10\%$$

and therefore

$$\begin{aligned} i &= r + \triangle p \\ &= 5\% + 10\% \\ &+ 15\%^{*} \end{aligned}$$

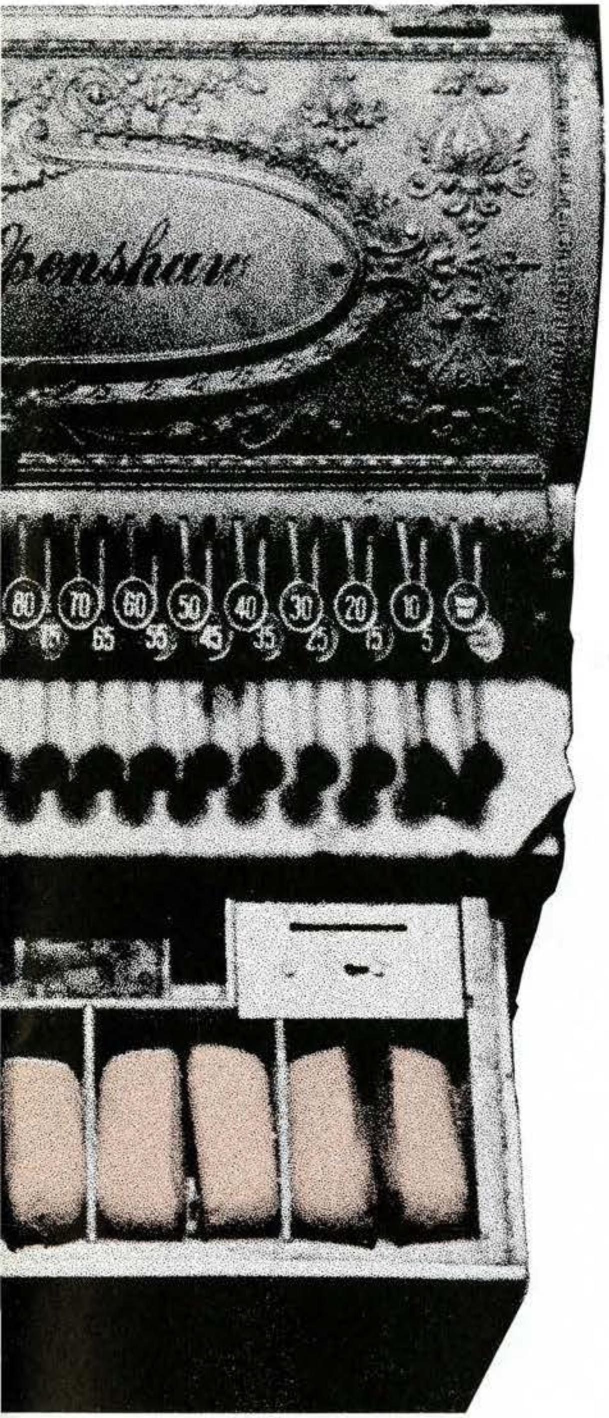
The example points out that whether the *dollar* interest rate is high or low depends on two terms—the real rate, r, and the rate of price-change, $\triangle p$. Of the two, the price change term is by far the more important in explaining the high level of interest rates. In order to make more sense of the example, let us first consider a brief interpretation of each of these terms and then turn our attention to some national data to complete the ideas.

First consider the *real* rate (r). It may be thought of from the lender's point of view as the rate of interest that would induce an individual to forego present consumption in order to enjoy increased consumption in the future. Notice that when speaking of the *real* rate, the argument is couched in terms of consumption of actual goods or services (or twinkies), so that prices do not enter the picture. From the borrower's point of view, the *real* rate reflects a willingness to give up part of future consumption in order to meet a need or desire for increased present consumption. Thus the *real* rate in the economy is the aggregate reflection of society's desire to allocate consumption forward or backward in time. In passing it should be noted that a major difficulty in gaining an intuitive feel for the *real* rate is that it is not observable in our economy.

However, the price-change term ($\triangle p$) is something with which most of us are now all too familiar. It may be thought of as the rate of change in the price of goods and services or, as is reported in the six o'clock news, the change in the Consumer Price Index (CPI). For many years not much attention was paid to rates of price change because prices were fairly stable and, therefore, the rate of price change was small (on the order of 1½ to 2 percent). However, since 1968 prices have been going up at rates averaging above 5 percent per year. At this rate, price changes become easily observable, as any connoisseur of twinkies knows.

The key to understanding high interest rates is realizing that the interest rates observed in the market place—those that are quoted by newscasters and referred to by politicians and explained by economists—are the *nominal* or *dollar* rates. These are the rates that correspond to the i in the Fisher relationship. Since these rates are quoted in dollar terms, they have already been adjusted for price changes. In other words, the $\triangle p$ term, the factor that a lender adds to the *real* interest rate to adjust for anticipated price changes, is automatically included in all quoted interest rates.

*The reader may note that in the example the dollar interest rate was given initially as 15.5 percent. Fischer's exact relationship stated that $i = \triangle p + r \triangle p$. Since the last term, called the cross product, is small, it is usually ignored. Therefore, the 15.5 percent becomes 15 percent when simplifying.



It might be helpful to restate the proposition one more time in terms of the twinkie example. In order to obtain the loan, the brother-in-law had to pay a dollar interest rate of 15 percent. On the surface this might seem like exorbitant loan sharking, but remember—fully two-thirds of the rate, or 10 percent, is a direct result of an anticipated price change. The lender is only receiving a modest five percent increase in purchasing power. Due to price increases, a *dollar* rate of 15 percent must be charged before a *real* rate of 5 percent can be realized.

The impact of price changes on interest rates can be seen very clearly from some simple data on past price changes and interest rates. Table 1 shows the annual rate of price change ($\triangle p$) and the interest rate on 9 to 12 month U.S. Government Securities (i) for years 1952 through 1974. (The government security rate was chosen because it is considered to be a risk-free rate, and the question of risk has purposely been avoided in this discussion.) A quick analysis of these data shows this:

Years	Average $\triangle p$	Average i	Average r
1952-67	2.0%	3.1%	1.1%
1968-75	5.9%	6.4%	0.5%

These data demonstrate very clearly the point of the discussion—namely, that price changes determine the general level of interest rates. When the rate of price change is moderate, as in the 52-67 period, interest rates are at modest levels. But the 68-75 experience shows that an increase in the rate of average price change from 2.0 percent to 5.9 percent results in a direct increase in the average level of interest rates from 3.1 percent to 6.4 percent. Finally, note that in 1976, with price changes declining to a rate of 5 percent, the average interest rate was at its lowest level since 1972, when the rate of price change was at a more reasonable 3.4 percent per year.

Thus the data confirm the relationship between price changes and interest rates that was suggested by Irving Fisher and demonstrated in the twinkie example. The interest rates observed in our economy are the *dollar* interest rates. Because they are quoted in dollars, they contain a direct reflection of the anticipated rate of price change; therefore, if price changes are expected to be high, dollar interest rates will be high. If price changes are low, interest rates will, in general, be low.

If all this is confusing—if the *real* rate, the *dollar* rate, and r and i and $\triangle$ p just give you Excedrin headache number 77—simply remember when you make a loan to tell the borrower, "Pay me back in twinkies, please!" ■

Table 1*

Year	Annual Rate of Price Change ($\triangle p$)	Rate on 9 to 12 Month U.S. Government Securities (i)
1952	2.1%	1.81%
1953	1.0	2.07
1954	1.5	0.92
1955	1.4	1.89
1956	3.4	2.83
1957	3.7	3.53
1958	2.5	2.09
1959	1.7	4.11
1960	1.6	3.55
1961	1.3	2.91
1962	1.1	3.02
1963	1.3	3.28
1964	1.6	3.76
1965	1.8	4.09
1966	2.8	5.17
1967	3.2	4.84
1968	4.0	5.62
1969	4.8	7.06
1970	5.5	6.90
1971	4.5	4.75
1972	3.4	4.86
1973	5.6	7.30
1974	10.2	8.25
1975	9.1	6.70
1976 (Estimate)	5.0	6.04

**Economic Report of the President*, February 1975, U.S. Government Printing Office, Washington, D.C. and *Federal Reserve Bulletin*, September 1976.

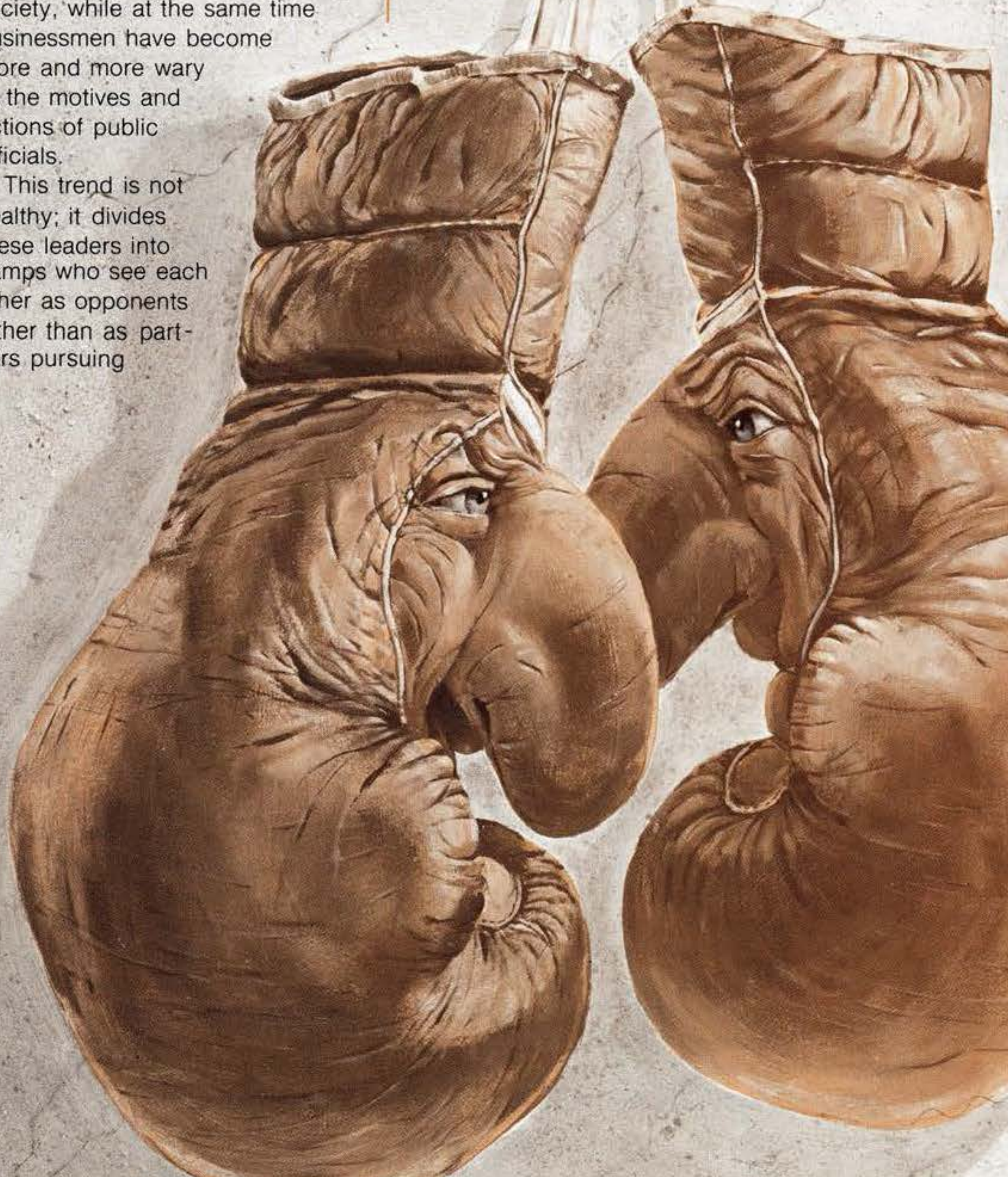
EXCHANGE COMMENT

PUTTING AN END TO SPARRING PARTNERS

by Lennis M. Knighton

Having recently returned to BYU after a two-year leave of absence as Utah's Legislative Auditor General, I am more aware than ever of the need for business and public-sector leaders to come together and understand each other. In recent years, public officials, particularly at the federal level and in some of the larger states and cities, have increasingly tended to blame businessmen for the ills of society, while at the same time businessmen have become more and more wary of the motives and actions of public officials.

This trend is not healthy; it divides these leaders into camps who see each other as opponents rather than as partners pursuing common goals and interests. Moreover, in the emotional battle between opposing factions, differences are exaggerated, issues are oversimplified, and real causes are often ignored as blame is shifted freely to the other side. It goes without saying that meaningful solutions are seldom found. Like boxers sparring in a ring, the public and private sectors often find themselves backed into corners and taking positions they would not consider rational under different circumstances. We do not have to look far to find extreme charges made by



some public leaders against the business community. With shrill voices, some have declared that "profits are obscene," that "big business" is to blame for shortages and inflation, and that corporate leaders as a lot are evil, scheming, money-hungry people, for whom the pursuit of the dollar is a consuming ambition. When we hear the cry to "tax the rich" in order to give to the poor, the rich are not thought of as the entertainers whose annual incomes run into the millions, but rather as corporate leaders and those associated with "big business." Seldom do we hear the balancing voices declaring that business is the engine that fuels our economy, the source of rewarding jobs and exciting careers to millions of Americans, and the means that produces an array of goods and services surpassing anything known to mankind.

On the other hand, the business community, including the professions that serve it, has become unusually critical and distrustful of political leaders and public administrators. Far too many in the business world think of politics as a dirty business and consider politicians to be individuals who lust for power at any price, who support policies and champion causes for political advantage and public recognition. Public administrators are too often viewed as unfortunate souls who drifted into government work because they could not survive the rigors of competition in the private sector. How unfortunate this attitude and feeling is, and how tragic the consequences of these mutual misunderstandings are among those we call "leaders" in the public and private sectors of our society.

As one who has taught extensively in both business and public administration programs, I can attest to the fact that neither sector has a monopoly on talent, commitment, goodwill, and high standards of excellence from which to choose its new recruits. Having held positions and professional responsibilities in both the public and the private sectors, I can state categorically that exciting challenges, rewarding service, qualified people, and high standards of ethics, morality, and professionalism are found in both sectors. By far the great majority of those I have come to know both in business and government are good, decent, honest, hardworking, dedicated men and women. The few dishonest and immoral individuals who command so much of the attention of the press are by no means representative of the vast majority who serve in both areas.

One of the greatest opportunities for the Graduate School of Management at Brigham Young University is to bring together students, alumni, and friends from the business world and the public sector so that each can better interface with the other. How unfortunate it would be if the GSM were to operate separate and independent graduate programs, each representing unintegrated, specialized, and antagonistic interests. What a lost opportunity we would experience if our business students failed to gain a proper perspective of the role of public administrators, and how tragic it would be for public administration students to graduate without a solid understanding of the role of business in our society.

Similarly, if business leaders who visit this campus meet only business faculty, and if government leaders see only those teaching public sector courses, by our own neglect we will forfeit the benefits to be gained from interaction. And finally, if we cannot naturally and successfully serve as a catalyst for bringing business leaders and public administrators together in a setting for mutual interaction, this school will have failed in one of its most important responsibilities and unique opportunities.

It must not be ignored that our common interests and concerns far outweigh our differences, and we must magnify our similarities while understanding and appreciating the bases of our differences. For years the top business schools in America have sought to develop the conceptual abilities and critical-tool skills of those who desire careers as business managers and professional leaders. In recent years top schools in public administration have also shifted their curricula away from a dominance of public affairs courses and emphasized more public management courses. BYU's public administration students, like MBA students, are now trained in financial management, personnel administration, economic analysis, organization theory and behavior, quantitative methods, policy analysis, and written as well as oral communication skills. These are the critical requisites for successful professional careers and managerial experiences in both the public and private sectors. There remains much common ground in these fields for meaningful interaction and dialogue. Yet leaders in both sectors must recognize the mutual challenges they face and share commitments to meet those challenges. ■

MEN AND WOMEN OF THE CORPORATION
Rosabeth Moss Kanter
Basic Books, $12.00

The stage for *Men and Women of the Corporation* is a company the author calls "Industrial Supply Corporation" (Indsco); the plot thickens around the corporation's effect on the people who work within its structures; and the climax offers plans for rewriting some existing scenes.

Indsco is painted as a large, powerful, multinational corporation with a "social conscience." Not only are managers, secretaries, and minorities portrayed, but corporate wives and their careers (which are tied to their husband's advancements) are also examined. Each situation shapes the individual "by confronting him or her with characteristic dilemmas and constricting the range of options for response." Thus, each one must choose a stance with respect to his or her position within the organization.

Focusing primarily on timely issues, Kanter offers some additional perspectives on unresolved matters as well as some logical but seldom tried remedies; e.g., on power and powerlessness "too few empowered" is solved through a wider sharing of power. Regarding the issues of minorities vs. majorities and tokenism: "Numbers—proportional representation—are important not only because they *symbolize* the presence or absence of discrimination but also because they have real consequences for performance."

At the drama's conclusion there is no climax to bring the audience to its feet cheering. This stems not from the quality of ideas—many of Kanter's suggestions for intervention are, in fact, practical and concrete methods individuals could use to improve their daily working lives—but rather from the limited scope of the suggestions. Kanter herself looks to "the transforming power of outside intervention" to modify organizational structure. Those implementing her suggestions do not really modify organizational structure at all. The description is interesting and clearly supported, but the concluding suggestions are not very efficacious for the individual. ■

–Carey Petersen

LOOKING OUT FOR NUMBER 1
Robert J. Ringer
Funk & Wagnalls, $6.95

In *Looking Out for Number 1,* Ringer's underlying philosophy is that people should do "those things which bring the greatest pleasure"—in other words, look out for themselves. His proposed means to this end include making choices, acting rationally, and controlling external forces in the environment. By following his "simple" guidelines, he says, we can hope to overcome hurdles that hinder our self-aggrandizement. These hurdles include:

- The tendency to blow up daily problems into major catastrophes. (He terms this the "Perspective Hurdle.")
- Decision making and actions based on emotional reaction instead of exclusively on facts. (Reality Hurdle)
- People who infiltrate and clutter our lives unnecessarily. (People Hurdle)
- Such futile causes as our desires to "join" and to "lash out." (Crusade Hurdle)
- Financial crises and setbacks that we allow to frustrate our efforts to gain pleasure. (Financial Hurdle)
- Friends accumulated by chance instead of selected for the right reason and circumstance. (Friendship Hurdle)
- Love as an enslaving emotion rather than a self-satisfying tool for increased happiness and pleasure. (Love Hurdle)

By identifying, clarifying, and overcoming these seven hurdles, Ringer proposes a new life, a renovated life "where the pleasures far exceed the moments of unpleasantness."

While Ringer's ideas and philosophy contain face validity and offer helpful hints for "hurdling," he falls into some traps. For example, he repeatedly advocates making "rational" choices, decisions based on fact and reality. The irony of this logic is that the most "rational" system is the computer. The IBM 360 has a proper perspective of reality, few problems with people, crusades, finances, and no friendship or love hang-ups, but . . .

Nonetheless, *Looking Out For Number 1* does supply helpful suggestions for directing our lives. Even if the hints have multiple hidden traps, they at least have some value in their perspective and wit. ■

–David Ulrich

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