

EXCHANGE

BRIGHAM YOUNG UNIVERSITY

COLLEGE OF BUSINESS/GRADUATE SCHOOL OF MANAGEMENT

ADVERTISING
REGULATION:
WHEN THE
SIZZLE SELLERS
FORGET
THE STEAK



FALL/WINTER 1976

DEAN'S REPORT

Broadening Our Exchange

The very creation of a publication often brings to mind a need to legitimize it. We must ask ourselves how and why the editorial tone and objectives of this new periodical will differ from the stacks of management material already available. And is a university in the position to offer direction to professionals dealing with practical situations?

At Brigham Young University we feel we are in a unique position to bring together individuals of strong ethical conduct as well as highly developed technical competence. This emphasis in the College of Business/Graduate School of Management has drawn support from professionals in both the public and private sectors. We have found that there are many who share our dual-focus approach toward leadership and who feel there needs to be a linkage between the academic and professional communities — hence the publication and name *Exchange*.

The college and graduate school have continuously sought to establish close working relationships with such industry leaders as Merrill Lynch (see p. 2) and Skaggs Companies, Inc. (p. 24). In addition, contact with outside professionals like manufacturer Jan Erteszek (p. 14) and social critic Daniel Bell (p. 44) adds support to voices within the University. Faculty experience, ranging from FTC consulting on deceptive advertising (p. 10) to analyzing traditional corporate advancement and reward systems (p. 6), further indicates a willingness of academic-professional cooperation. We will continue to expand both faculty and student exposure to areas similar to these.

In light of our past record, our goals are equally as ambitious. We recognize that we must increase the size of our faculty, offer many highly specialized courses on a less limited basis, and expand classroom, library, and computer facilities. In addition, many deserving students cannot be given financial aid. To help meet these needs, we are working to finalize architectural plans for a new building, to establish endowed chairs and professorships, to increase reference and resource materials, and to fund faculty research and student scholarship/loan funds. The bill comes to \$20 million.

The publication of *Exchange* is intended to be more than a display of academic writing, more than an update of BYU events. We hope that it will help build a network of professionals who share our concern for strong management skills and leadership. We also solicit your views to further broaden our *Exchange*.



Merrill J. Bateman

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Published by the College of Business/Graduate School of Management, Brigham Young University, Provo, Utah. © Copyright 1976 by Brigham Young University. All rights reserved. All communications should be sent to *Exchange*, 154 Jesse Knight Building, Brigham Young University, Provo, Utah 84602, telephone area code (801) 374-1211 ext. 4121.

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Snowbird Welcomes
**Future's
Market Seminar**

BYU and Merrill Lynch at Snowbird

LOOKING TO THE FUTURE(S)

Mention commodities and even most play-for-high-stakes executives get a little uneasy. For most, futures trading is synonymous with double-or-nothing-type risks — with odds on the nothing side. Since 1972, commodity prices, on the average, have doubled. Yet the highly volatile prices of raw materials often determine a company's ability to compete, and compete effectively. Likewise, raw material sellers must hedge against sudden drops in price. This has forced many companies to reexamine their positions as buyers and sellers of raw materials.

The need was obvious. The nation's largest commodity brokerage, Merrill Lynch, Pierce, Fenner & Smith Inc., and the BYU Graduate School of Management combined forces to cosponsor a three-day summer conference for 60 businessmen and leading commodity specialists from throughout the country. Presidents, treasurers, controllers, buyers, and sellers met experts in sugar, lumber, plywood, grains, cocoa, fats and oils, meats, metals, and money markets. Conglomerates and small family firms; east-side New Yorkers and Idaho farmers; those who had had a taste of hedging and those who hadn't — they all shared a con-



The seminar provided time to take in the mountain view while discussing sessions and individual commodities with others interested in the futures markets

cern for forecasting commodity prices.

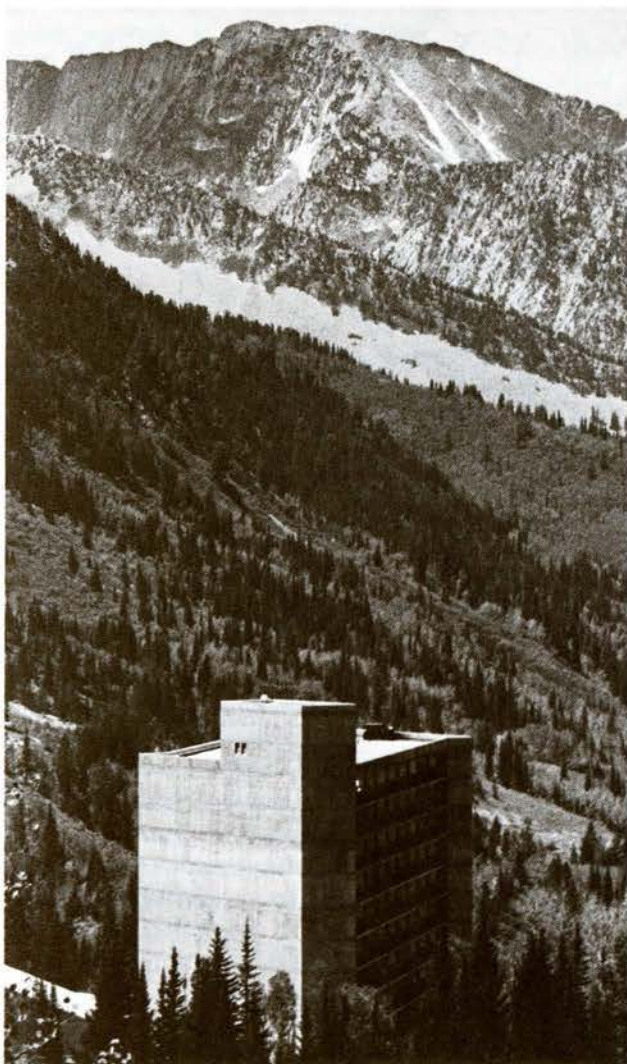
Some businessmen needed information to "sell the idea to top management and the board of directors." Others came to discuss accounting aspects, look at specific hedging plans, or examine various forecasting techniques. Many felt they should start some kind of hedging program and just came with questions and inexperience.

The talk may have centered on the Chicago, New York, and London exchanges, but no urban skyline could stand up to Utah's Little Cottonwood Canyon with its 11,000-foot elevation and view of the Wasatch and Oquirrh Mountains. In the winter, Snowbird resort is host to 450 inches of annual snowfall, not to overlook some thousands of skiers. In the summer, the rough-timber beams, natural skylighting, and massive stone fireplaces make a comfortable, rustic setting for conferences, seminars, and retreats.

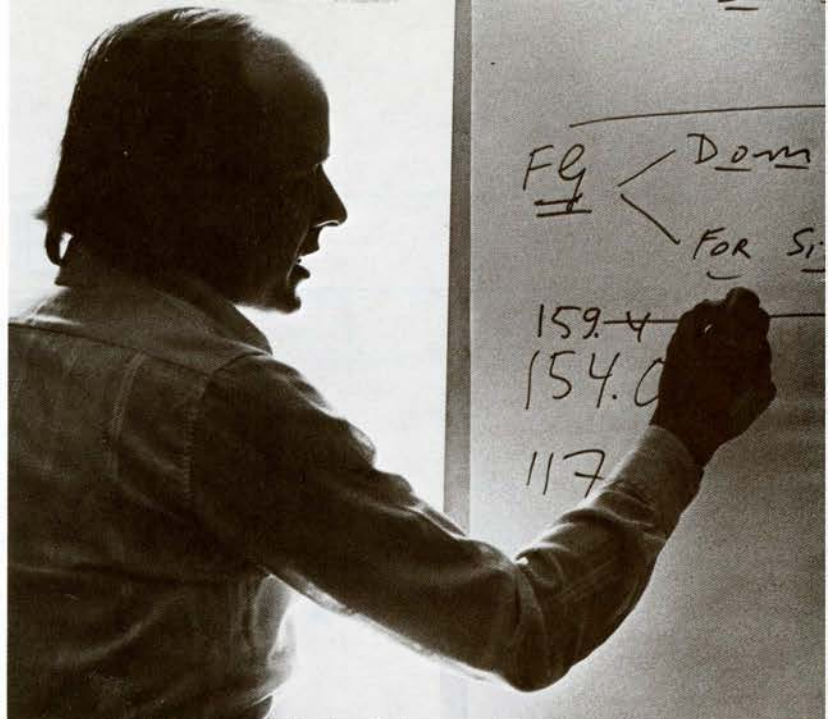
For the futures conference, gone were the three-button suits; it was strictly Saturday-morning attire against the thick foliage and jagged cliff rocks. "This beats the heck out of New Haven or Philadelphia," commented an Easterner. "It's different for me not being able to see the air I breathe," said another.

The casual setting invited conversations. In specific commodity sessions, over enchilada-and-refried-bean lunches, on steep mountain trail walks, and during mid-morning breaks, businessmen and specialists shared questions and experiences — some good, some not so good.

The success rates of past involvements with commodities may



Cliff Lodge at Snowbird resort hosted BYU-Merrill Lynch's cosponsored commodities conference



A native of Belgium, Joseph Vandeputte has specialized in the feed grains and oil seed complex. He is currently senior vice-president of Commodities Corporation and manages the firm's Brussels office



The structure of the futures industry was outlined by Jack B. Hepworth, assistant vice-president at Merrill Lynch

have varied, but the quality of the questions didn't. The executives knew the jolt from 1972 corn prices of \$1.25 per bushel to a current average of \$3. Within the same time period, many of the food processors had had to deal with sugar prices soaring from 9 cents to 50 cents per pound. Likewise, soybeans have climbed from \$3.50 to \$7 per bushel, and cocoa has jumped from 30 cents to \$1.10 per pound.

The dramatic increases in price indicate that internationally traded commodities are particularly volatile because they represent an alternative to depreciating

currencies, according to David Meiselman, a keynote speaker and author of *The Phenomenon of Worldwide Inflation*. "During recent years it has become almost habitual for an Englishman to sell sterling for copper, cocoa, sugar, or some other internationally traded commodity at the slightest suspicion of sterling weakness. This additional demand factor has been partly responsible for the strong price rises in many of the commodity markets," he said.

Other discussions centered on different forms of price protection for commodity buyers and sellers. Buying or selling physical com-

modities in the forward markets or performing the same types of transactions in the various futures markets represent forms of hedging. A disadvantage of cash markets is the difficulty of reversing your position if market conditions change. On the other hand, futures markets provide flexibility in reversing your position but have very strong cash flow risks, and operations in these markets must be carefully controlled.

Whether they were producers, consumers, or middlemen, those attending the conference were interested in financing of raw materials, organizational struc-



Conference participants met in small groups to discuss individual commodities. Highlighted were cocoa and sugar, lumber and plywood, grains, fats and oils, money markets, meats, and metals. Companies represented included Safeway, Campbell Soup, Eli Lilly, Green Giant, and Wickes



Cocoa and sugar expert F. Helmut Weymar heads the New Jersey-based Commodities Corporation



Ann Beggs Rauff attended the conference independently of any firm



H. Fred Baerwald, chairman of International Minerals and Metals Corp., led a discussion on metals futures

tures for hedging, building forecasting models, and evaluating operational costs. ("It doesn't take a million or even \$250,000 to get started," the experts agreed.) Developing internal staffs or going to outside firms as well as brokerage research were key issues.

"The conference didn't give all the answers but it gave you questions you can go back and start working on," commented E. N. Henney, vice-president of Safeway Stores, Inc.

G. L. Zang agreed. The president of the Sunmark Companies, manufacturers of candy in St.

Louis, added, "I hear these things and I know they're possible. We're not doing hedging and we probably should. We'll look to bring in a specialist."

"My company is growing," said one vice-president of purchasing. "Our inventory is growing and we need to protect that through the use of the futures markets. We've been using hedging on a limited basis but haven't been that active and we need to expand. The organizational procedures that were outlined will be a real help."

Perhaps the greatest benefit of the conference was the discussion of alternative approaches for

buyers and sellers who had felt they faced a limited number of options. Although the participants represented various positions in commodity transactions, they shared the expertise of leading specialists. The obvious interest in futures indicated by those attending the Snowbird conference, combined with numerous inquiries about additional seminars, has led BYU and Merrill Lynch to consider a number of suggestions, including the request that winter and skiers be given equal time by scheduling sessions in the evening leaving days free for stem christies. ■

It's not unusual to hear managers comment on the difficulties they have managing their professional employees. The most visible evidence of this problem has been union activity. An increasing number of doctors, teachers, and engineers are walking picket lines and pressing for improvements in pay, hours, and working conditions. Membership in professional unions or associations involved in collective bargaining has increased dramatically in the last decade.

Much of that increase has been in the public sector. For example, last year the American Federation of Teachers claimed 450,000 members, four and one-half times their 1963 membership. Nearly 20 percent of the college and university professors on 420 campuses have been organized.

However, the private sector cannot afford to ignore these developments because there has been a high level of interest in unionization among scientists, engineers, and other professional employees. And this is not the only evidence of unrest among what Peter Drucker calls "knowledge workers."

Research interviews with over 400 accountants, scientists, engineers, bank loan officers, and

TEAR DOWN THE PYRAMIDS

by Paul H. Thompson

Illustration by Ron Eddington

professors have indicated frequent disenchantment with professional employment.

"Engineering doesn't have the prestige it once had. The glamor has worn off."

"I'd never let my son go into this field."

"My brother makes more money as a plumber than I do with a Ph.D."

Managing "Knowledge Workers"

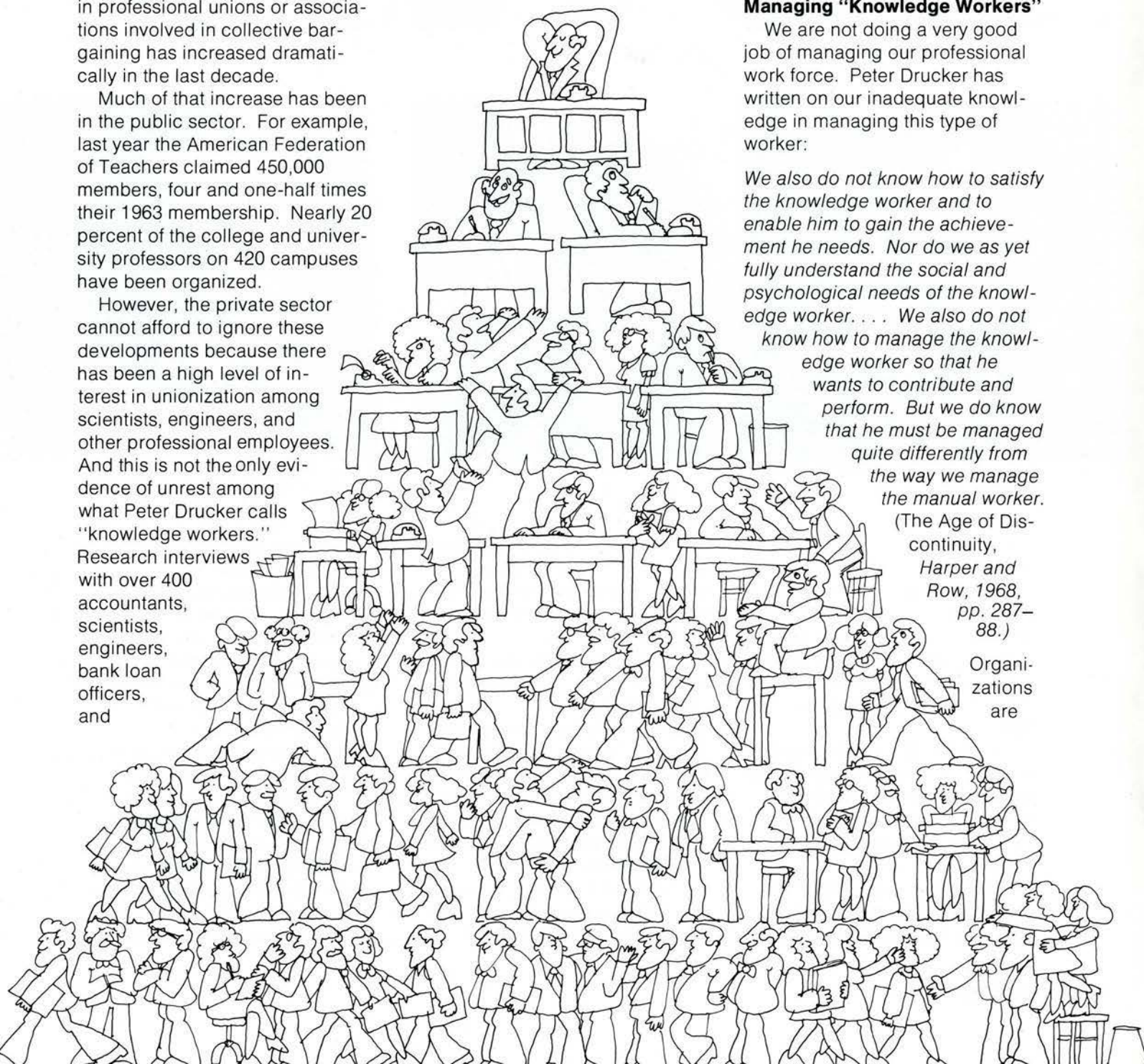
We are not doing a very good job of managing our professional work force. Peter Drucker has written on our inadequate knowledge in managing this type of worker:

We also do not know how to satisfy the knowledge worker and to enable him to gain the achievement he needs. Nor do we as yet fully understand the social and psychological needs of the knowledge worker. . . . We also do not

know how to manage the knowledge worker so that he wants to contribute and perform. But we do know that he must be managed quite differently from the way we manage the manual worker.

(The Age of Discontinuity, Harper and Row, 1968, pp. 287-88.)

Organizations are



having difficulty with their professional employees because firms tend to think of career growth only in terms of climbing the corporate ladder. With that concept, career development consists of moving as high and as fast as possible. Whether the ladder is called the hierarchy, organization chart, or pyramid, upward movement has become the symbol of corporate success.

However, this concept of career growth can be completely inappropriate for professional organizations. We need a new way to think about careers if professionals are going to be motivated and productive members of organizations. Yet the pyramid problem must be studied before we can develop workable alternatives.

Winners and Losers

In the last 15 to 20 years almost all medium-to-large organizations have employed increasing numbers of professionals — accountants, engineers, lawyers, scientists, and the like. As the numbers in each of these specialties increased, it seemed only natural to create a hierarchy and appoint supervisors, managers, vice-presidents, and so forth. Since many of these specialists were bright and well educated, some of the most competent were promoted into top management to help the organization cope with increasingly complex situations. No one would argue that these professionals should not be promoted into top management. But management went beyond just promoting some capable people; they designed a whole reward system that inadvertently gave the signal that professional contributions were valued — but only secondarily. The reward system encouraged all the brightest people to move out of their specialties and into the management ranks as fast as possible. Those who had

been promoted into management were labeled *winners*, and those still performing the prime tasks of the organization were pegged *losers*. In these organizations it became extremely difficult for anyone to take pride in himself as a professional. Most power and status were given to the managers.

A recent article in *Business Week* advocates "career pathing" for those who want to "make something" of themselves. In describing "career pathing," the article gives some advice that illustrates the point very well:

Get out of your specialty fast, unless you decide that's all you ever want to do. This means rapid rejection of the notion that you are a professional engineer, lawyer, scientist, or anything but a manager.

This advice makes it very difficult for a person to feel successful

**Management
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if he chooses to make a contribution in his specialty. But organizations do more than just imply that promotion means success and not being promoted means failure. They tie most of the important rewards to the hierarchy.

"Mahogany Row"

Most pay systems are designed on the basis of a hierarchical system which emphasizes factors such as the number of people supervised.

Before long, a chemist, who has the ability to develop a new product that may mean millions of dollars in profits, decides that he wants to become a manager because that's where the money is. The status symbols are also tied to the hierarchy. Most organizations make major distinctions between managers and nonmanagers — the accountants have desks in a large bull pen and their supervisor gets a large office on "Mahogany Row." Furthermore, for each promotion, the manager gets a larger office, more expensive furniture, and a parking space closer to the front door. These symbols don't go to those making significant contributions in non-management areas. Such distinctions are often a real disincentive to individual contributors.

Managers are not deliberately trying to push all the best people out of professional work. They are aware that a chemical company needs top-notch chemists in the labs and an engineering company needs first-rate engineers at the drafting tables. If all the best professionals go into management, what will there be left to manage? The problem remains that managers and professionals alike have been locked into the concept of pyramid scaling. An alternative system is necessary.

Individual Specialists, Mentors . . .

Looking at careers of professionals, one becomes aware that many individuals remain high performers while others slip into mediocrity after age 35 or 40. Examination of these patterns makes it clear that the careers of professionals develop by stages. Each stage differs from the others in activities, relationships, and psychological adjustments. Moreover, successful performance at each stage is a prerequisite for

moving on to the next. Individuals who continue to move through these stages retain their high performance ratings; those who do not move tend to be less valued by the organization. Four stages are identified, in the accompanying box, with Stage I noted as the apprenticeship period. Here an individual works under relatively close supervision and direction. In addition, most highly successful professionals have an informal "mentor" at this time. Surprisingly, some people stay in this stage most of their careers and are never able to assume independent responsibility for their own work. However, that group represents a small minority. The majority of professionals make a successful transition into Stage II — the independent specialist.

A majority of professionals look forward to having their own project or area of responsibility. Earning this opportunity and taking advantage of it moves a person into Stage II. Most of the solid

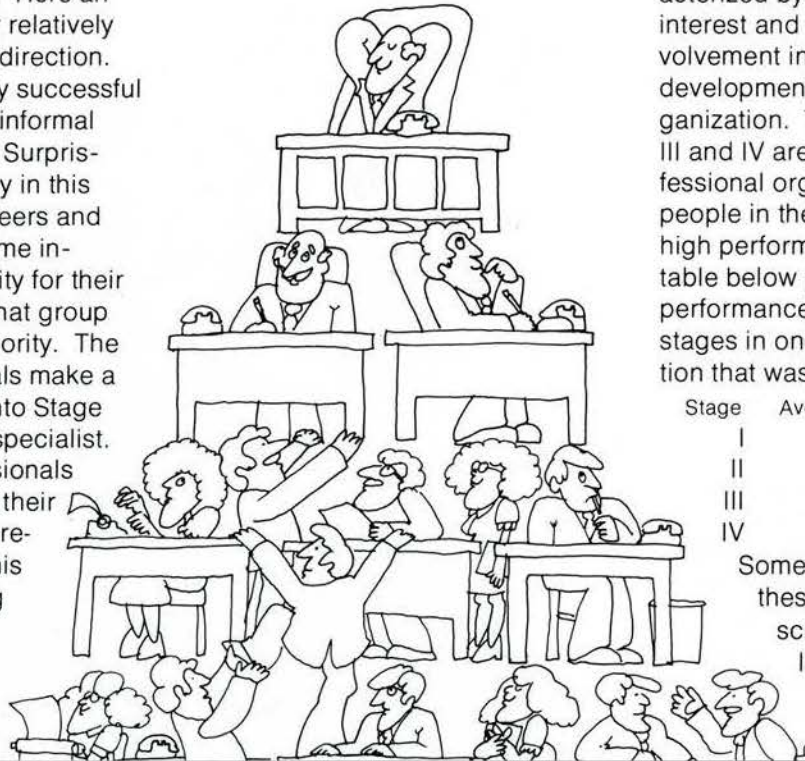
professional work in the organization is done by individuals in this category. About 40 percent of professionals are in Stage II. However, from an individual point of view, it is risky to remain in this stage because managers have rising expectations as a person's

age and salary level increase. As a result those who remain in this stage after age 40 tend to receive lower performance ratings. Professionals who move into Stages III and IV are quite successful in avoiding that fate.

The last two stages are characterized by greater breadth of interest and activities and by involvement in the careers and development of others in the organization. The activities in Stages III and IV are highly valued in professional organizations, and people in these stages receive high performance rankings. The table below presents the average performance rating for the four stages in one research organization that was studied.

Stage	Average Performance Ranking
I	17 percentile
II	34 percentile
III	65 percentile
IV	89 percentile

Some have commented that these stages are just descriptions of different levels of management and that all that has



Stage I

- Works under the supervision and direction of a more senior professional in the field
- Is never entrusted with work entirely his own but is given assignments which are a portion of larger project or activity being overseen by senior professional
- Lacks experience and status in organization
- Is expected to accept supervision and direction willingly
- Is expected to do most of the detailed and routine work on a project
- Is expected to exercise "directed" creativity and initiative
- Learns to perform well under pressure and accomplish a task within the time budgeted

Stage II

- Goes into depth in one problem or technical area
- Assumes responsibility for a definable portion of the project, process, or clients
- Works independently and produces significant results
- Develops credibility and a reputation
- Relies less on supervisor or mentor for answers, develops more of his own resources to solve problems
- Increases in confidence and ability

Stage III

- Involved enough in his own work to make significant technical contributions but begins working in more than one area
- Greater breadth of technical

skills and application of those skills

- Stimulates others through ideas and information
- Involved in developing people in one or more of the following ways:
 - a. acts as an idea man for a small group
 - b. serves as a mentor to younger professionals
 - c. assumes a formal supervisory position
- Deals with the outside to benefit others in organizations, i.e., works out relationships with client organizations, developing new business, etc.

Stage IV

- Influences future direction of organization through:
 - a. original ideas, leading the organization into new

areas of work

- b. organizational leadership and policy formation
- c. integrating the work of others to a significant end

- Influence gained on the basis of:
 - a. past ability to assess environmental trends
 - b. ability to deal effectively with outside
 - c. ability to affect others inside the organization
- Has the ability to engage in wide and varied interactions:
 - a. at all levels of the organization
 - b. with individuals and groups outside the organization
- Involved in the development of future key people; a sponsor for promising people in other stages

been done is to give the pyramid another name. Yet research does not support this observation. In an effort to better understand this concept, third-level managers in five organizations were asked to list each person in their departments in one of the four stages. We then compared the descriptions with current performance rankings. On the average, people in the later stages were rated higher than those in early stages, as the above table indicates. But an analysis of proportion of managers and non-managers in each stage reveals some interesting results:

Stage	Proportion of Nonmanagers
I	100 percent
II	100 percent
III	65 percent
IV	26 percent

It is true that there are many managers in Stages III and IV, but those stages are by no means reserved exclusively for managers. In fact, a majority of the people in Stage III were individual contributors. This indicates that *a person can remain an individual contributor doing work primarily in his specialty and still be highly valued by the organization.* Unfortunately, the pyramid and associated reward systems in many organizations make it difficult, if not impossible, for managers to show the individual contributors in Stages III and IV that they are highly valued. It becomes evident that major changes must be made if organizations are going to succeed in keeping competent professionals working hard at their professional work.

Toppling the Corporate Ladder

In order to manage professionals effectively, executives need to tear down the pyramids. Instead of highlighting the corporate ladder and tying all rewards to promotion, that aspect of rewards needs to be substantially deemphasized. Some

concrete recommendations may be helpful in meeting that objective.

Focus on Stages, not Ladders

Promotion as an indicator of career growth has serious consequences for a professional organization, but very few managers and professionals have had satisfactory ways to evaluate careers. The concept of career stages is one alternative. This idea has

**Before long,
a chemist,
who has
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develop
a new product
that may mean
millions of
dollars in profits,
decides that
he wants to
become
a manager
because that's
where the
money is**

been received positively when presented to both professionals and their managers. They seem almost relieved that there is an alternative way to examine careers. The four-stage system is a useful tool in seminars focusing on careers as well as on a one-to-one basis in performance appraisal and long-range planning sessions between professionals and their supervisors.

Reward Professional Contributions

If an organization is going to keep talented employees doing professional work, it must provide meaningful rewards to high-performing individual contributors. An individual should be paid for his performance and not for his position or the number of people he supervises. If an individual contributor is doing Stage IV work, he should be paid more than the manager doing Stage III work.

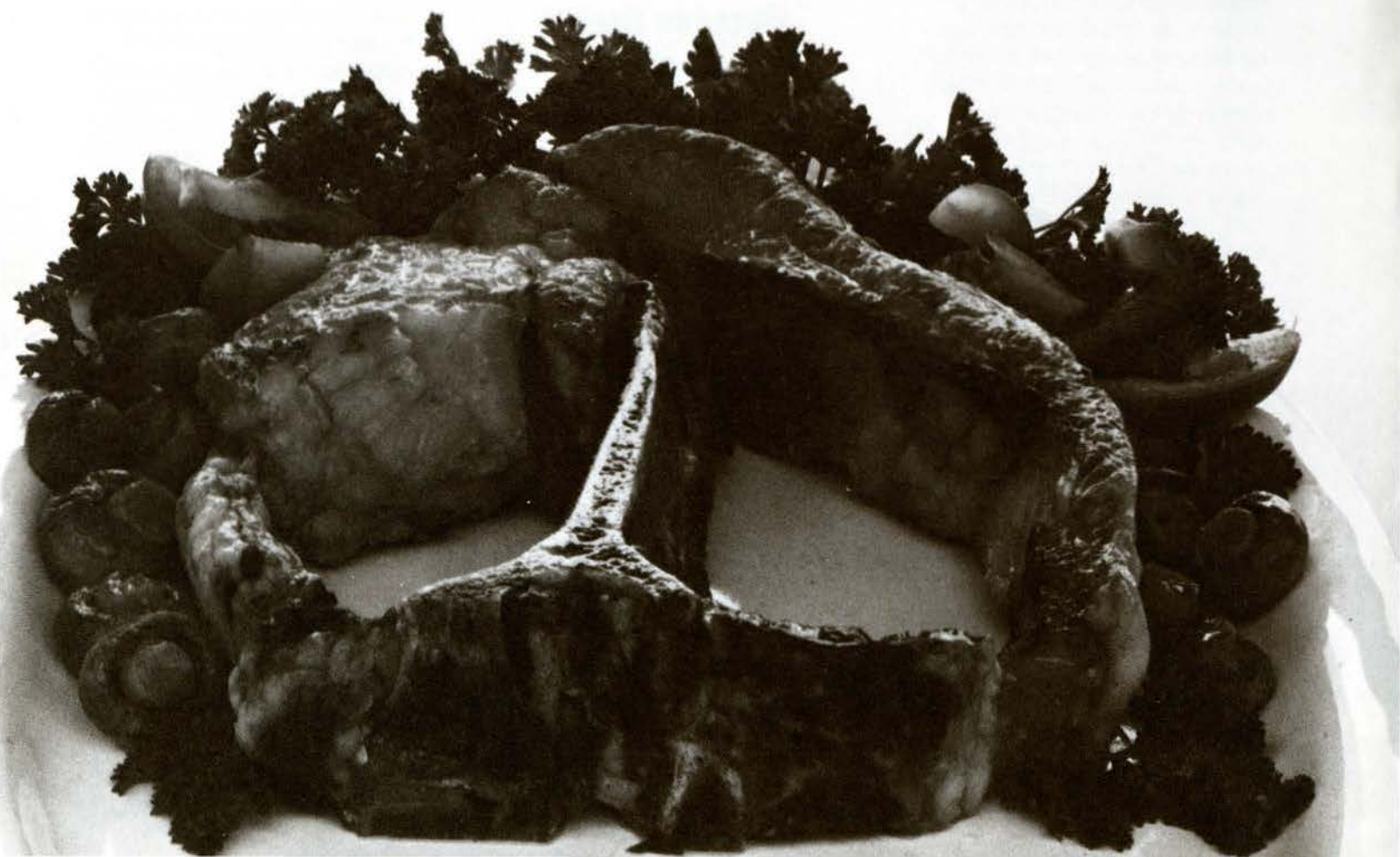
A critical incentive for an experienced professional is the confidence that he is influential in making important decisions. The manager who makes all decisions on the basis of the authority of his position has a stifling effect on the whole organization. Managers who make use of the expertise of individual contributors have found the practice pays off.

One reason promotion into management is an important sign of success is that it provides increased visibility, often in the form of status symbols such as a private office, reserved parking, and the like. The distinction between managers and nonmanagers in these areas is often counterproductive. If distinctions must be made, it would be better to use stages as a basis rather than managerial status.

The pyramid, or corporate hierarchy, may be a major cause of unrest and disenchantment in the ranks of professional employees in organizations. Many competent professionals want to make their contribution to the corporation in their area of specialty. If they can believe that such a contribution is valued and rewarded, they will remain highly productive. It will not be an easy task for managers to communicate this view to their professionals, but tearing down the pyramid is a step in the right direction. ■

ADVERTISING
REGULATION:
**WHEN THE
SIZZLE SELLERS
FORGET
THE STEAK**

by H. Keith Hunt



It would be nice if a discussion of "Advertising in the Public Interest" involved the many ways the federal government enables, helps, cajoles, and sometimes demands advertising of maximum use to business and to the consumer. Instead of a helping relationship, however, government and advertising continue as adversaries: the government trying to get better advertising through rules, threats, and various constraints; and the advertising industry often earnestly, and always desperately, seeking to parry these encroachments on their established means of operation.

Businesses must be aware of a number of programs the Federal Trade Commission is using currently in its attempt to limit deceptive advertising.

Advertising Substantiation

Perhaps the most important FTC program affecting advertising in the past 20 years is Advertising Substantiation. If an advertisement makes any claim, that claim must have been substantiated *before* the ad ran. If you want to say your crunchy peanut butter has more chopped peanuts than any other peanut butter, then you are expected to have proved that claim by objective testing procedures before you say so in an ad.

Ad Substantiation arose out of a case concerning UNBURN, a sunburn pain reliever marketed and advertised by Pfizer. An FTC attorney filed a complaint that UNBURN's claims to pain-relieving properties were unfair because

they had not been substantiated before the ads were run. The case was, in fact, dismissed because the ingredients were generally held to have pain-relieving properties, so no test of the specific formula for UNBURN was needed. However, the hearing examiner said that to advertise an untried remedy without adequate testing would be an unfair trade practice.

On appeal to the commissioners the dismissal was upheld. But in their decision the commissioners made the following statement:

Given the imbalance of knowledge and resources between a business enterprise and each of its customers, economically it is more rational and imposes far less cost on society to require a manufacturer to confirm his affirmative product claims rather than impose a burden on each individual consumer to test, investigate, or experiment for himself. The manufacturer has the ability, the know-how, the equipment, the time and resources to undertake such information, by testing or otherwise, . . . the consumer usually does not. (CCH Trade Regulation Reporter. Par 20,056 at 22,033, 1970-1973 Transfer Binder, FTC, July 11, 1972)

The commissioners passed a resolution asserting the FTC's authority to require advertisers to provide documentation of their claims prior to making them public.

This decision and resolution mean (1) a shift of the burden of

proof regarding the validity of advertising claims to the advertiser, and (2) the truthfulness of the claim is no defense to a charge of unfair trade practice where the advertiser has not substantiated the claim in advance.

But what if you advertise that your 1977 model automobile gets 17 miles per gallon? That statement by itself is untestable because there are too many undefined influences — driving conditions, speed, proper tuning, and so on. So a companion concept is needed.

Affirmative Disclosure

Affirmative Disclosure simply requires that all relevant information be stated in the advertisement. If you want to make a miles-per-gallon claim, you must define the test situations so that consumers understand the conditions under which the car got 17 mpg. Because advertisers have the obligation to include all significant facts in their ads, they can go to court and fight the FTC regarding relevance or degree of disclosure, but the basic principle that relevant information must be provided in ads is firmly established.

Advertising Substantiation and Affirmative Disclosure bring about dramatic changes in the advertising regulation. No longer do public officials need to quibble with advertisers about whether an ad claim is false; any claim must be proven before the ad is run. If a claim isn't substantiated because it hasn't been tested, there is an automatic law violation. If the claim is tested and found false but

is run anyway, it is automatic false advertisement, proven invalid by the advertiser, and not by the regulator. And if adequate information is not provided to enable the consumer to make a reasoned decision, then the

information be included, and that deceptiveness of ads be judged on the basis of the meanings consumers get from them.

Our first feelings on learning of these interrelationships might be that the pendulum has swung too

**If you say your peanut butter is the crunchiest,
you'd better have the facts to back your ad before
you run it**

regulator requires the advertiser to provide it. All this is an obvious shift from only a few years ago when the test of fairness or deception lay in the literal truthfulness of the ad.

Legal Definition of Deception

Another critical change is currently and slowly occurring — reexamination of the legal definition of deception. The shift is from deception being determined by literal content of the ad to deception being determined by consumer perceptions after exposure to the ad. For all these years we have judged deception without ever checking to see if consumers were actually deceived. How do we know whether deception has occurred? Only by measuring consumer perceptions and comparing them to the real state of nature. If consumers incorrectly perceive something and that incorrect perception can be attributed in part to the ad, then the ad is deceptive. In other words, it's not what the ad says that makes it deceptive; it's the incorrect perception gained by consumers resulting from exposure to the ad. This is a radical shift in advertising regulation.

Coupled with Ad Substantiation and Affirmative Disclosure, this new view of deception requires that ad claims be substantiated before running, that all relevant

far in favor of the regulators, putting advertisers in an almost impossible position.

But we need to recognize that advertisers are professional persuaders — society's supercommunicators. They sell their skills in the business community as experts who develop messages and check their impact on consumers. They do it all the time. Part of their expertise is knowing what consumer perceptions of their ads will be. It is, therefore, in no way an imposition to hold them responsible for their work.

We can now view the pendulum as having swung for the first time to the public interest. It has just crossed to this side, and constraints on advertising are going to get a lot tougher before the pendulum starts back the other way.

Injunctive Power

For the first time the FTC now has the power to temporarily stop ads from running until a proper investigation and hearing are held. In the past, ad campaigns would be exhausted and discarded before the commission ever got the matter settled. Now, for cases having no novel or unique characteristics needing court review, the FTC can seek a temporary injunction stopping the ad from running.

The most notable case using injunctive power thus far involved tours to the Philippines to obtain "psycho-surgery" — surgery without opening the body. Rather than spend years getting the matter through hearings, delays, and so forth, and allowing the practice to continue, the ads were stopped by injunction. Then the parties could litigate as long as they wanted. The FTC has publicly stated, though, that the injunctive power will be used not in landmark cases that seek to test novel legal theories, but only where a clear violation of the law has occurred and no unique or novel legal theory is involved.

Corrective Advertising

Now, what about the ad campaign that runs for awhile, has general public awareness, and is then judged to be deceptive? The campaign is killed (or more likely has already died naturally); do the effects of a deceptive ad stop when the ad stops? (Or does some deceptive residual remain in consumers' minds?)

As a proposed remedy for erroneous beliefs that continue after the offensive ad has been stopped, corrective advertising carries a statement that previous ads were deceptive or misleading, and it usually makes some attempt to correct the information. There have been several applications of the corrective advertising concept, but thus far each has been through a consent order, an agreement by which the advertiser does not admit to guilt but agrees to abandon the alleged misdeed in the future. Corrective advertising has been included as part of several consent agreements involving false and/or deceptive advertising.

The first litigated corrective advertising was ordered by an FTC administrative law judge to correct advertising claims made by Lis-

terine mouthwash. The ads professed that regular use of Listerine reduced the severity and frequency of colds and sore throats. The administrative law judge found that claim to be false. The decision was appealed by Listerine to the FTC commissioners sitting in an appeal function. The commissioners essentially upheld the findings of the administrative law judge. Listerine has appealed the second decision to the federal court system and is waiting a decision at this writing.

All other attempts to require corrective advertising in a litigated case have failed because of the extreme difficulty of proving residual effects from deceptive ads. How do you show that an ad that ran two or three years ago still influences consumers today? By a simple before-after research design? But the "before" measure would have had to have been taken years ago, before anyone suspected a need for such a measure. And if the erroneous beliefs held today seem to be due to the earlier deceptive advertising, how can we know that that linkage is correct? Maybe the current erroneous beliefs stem from sources other than advertising, such as friends' comments, claims made by similar products, statements from salesmen, and so on. It is a most knotty problem.

Sliced Thinner

Several corrective ads have run. Profile Bread was the first, with Julia Meade informing us that we wouldn't really lose weight by eating Profile Bread — it had fewer calories per slice only because it was sliced thinner than other similar breads. Other applications were for Ocean Spray Cranberry Juice Cocktail, concerning its nutritional value; Domino and Spreckels sugar, concerning nutritional claims; the sugar trade association, concern-

ing dietary value of refined sugar (it won't really help you lose weight to eat some sugar before each meal); and motorcycle safety helmets that weren't really the safest helmets built (in fact, on a normal, hot, sunny summer day the helmet, when struck, would shatter like ordinary window glass).

Each of these followed some variation of the same idea — the advertiser would have to spend 25 percent of the next year's advertising budget presenting the corrective message, which had to be approved by the FTC.

"Just Do It"

Then a real breakthrough occurred. In the Hawaiian Punch case the advertiser was given the option of either running an affirmative disclosure stating the natural fruit juice content or showing from

case the FTC used a weak penalty, and the advertiser wisely opted for the penalty. Hawaiian Punch was required to state the natural fruit-juice content for one year. After the year it could show by consumer survey that set percentages of consumers correctly understood the actual natural juice content of Hawaiian Punch. As it turned out, the natural juice content message was so skillfully embedded in the labels and was stated so smoothly in the ads, that there was no adverse effect on product perception. So the company has opted to continue running the statement rather than trying to correct consumer perception to meet the requirements of the consumer study.

Still, the concept is good because it allows the advertiser to

Constraints on advertising are going to get a lot tougher before the pendulum starts back the other way

acceptable consumer surveys that consumers correctly understood the natural juice content of Hawaiian Punch. This is a clear advance because it gets the FTC out of the message-creation-and-ad-writing business and leaves the responsibility with the advertiser. All the FTC says is "Here's what you have to do — you figure out how you want to do it. Just do it." *No one procedure* for corrective advertising will actually remove the deceptive residual in every case. All the FTC cares about is that the residual is removed. So it seems reasonable to let the FTC set the objective and let the advertiser decide how to accomplish it.

Of course, there has to be a penalty if the objective is not achieved. In the Hawaiian Punch

make the correction his way and to stop as soon as the correction is accomplished. The Hawaiian Punch alternative for handling the elimination of deceptive residual allows the FTC to regulate by setting an objective and allows the professional communicators to figure out a way to meet the objective.

Advertising Substantiation, Affirmative Disclosure, a new legal meaning of deception, injunctive power, corrective advertising — these are some of the current FTC activities encouraging advertising in the public interest and, ultimately, for the good of the private sector as well. What remains is further evaluation of currently employed regulatory devices and exploration of new ways of handling old problems. ■

EXCHANGE PROFILE / JAN ERTESZEK

It is because, not in spite, of a "participating spirit" that the Olga Company's growth has surpassed its competitors, says President Jan Erteszek

The original investment 35 years ago was ten dollars — five dollars to rent a sewing machine and the remainder for fabric — and the results were fashion samples that convinced a Bullock's Wilshire buyer in Los Angeles that Jan Erteszek and his wife, Olga, understood quality design. Yet few \$10 investments turn into companies listing more than \$31 million in annual sales.

Back in 1941, when Olga was designer-seamstress and Jan was salesman-promoter, the Olga Company was satisfied picking up a couple of dozen orders here and there. Today business is good, to say the least. During the last four years, the Erteszeks' Olga Company has reported a sales increase of 120 percent while enjoying a 155 percent jump in profits. The company is recognized as an industry leader in a full range of diversified intimate fashion apparel. Without merger, acquisition, or entering the mass merchandising market, the Olga Company has increased in both volume and profits in almost every year since its inception, at times growing at five to six times the industry rate.

The company's ads are quick to point out that "behind every Olga there really is an Olga." (She



Founder/President Jan Erteszek heads the 35-year-old Olga Company and is an ardent spokesman for incorporating Sunday ideals into the lives of businessmen and employees

PUTTING THE GOLDEN RULE INTO PRODUCTION

Photography by Dave Holt

remains active as Vice-President — Design). And behind Olga is Jan Erteszek. Since the early days, when Erteszek took his wife's samples to Los Angeles buyers, the two have worked together; it has been a common-venture endeavor. He has also sought to carry over this same common-venture philosophy to the more than 1,700 "Olga associates" in manufacturing operations in California and Mexico. These individuals receive 25 percent of the company's *before-taxes* profits in profit sharing and stock plans. It is because, not in spite, of this "participating spirit" that the Olga Company's growth has surpassed its competitors, says Erteszek. "We don't give anyone anything, we share what we produce together. And we share not only in blessings, but in problems as well." Everyone talks about what business *ought* to be doing, but sitting and listening to Erteszek, and recognizing his truly astounding success, you know he is in the position to act. He tells *you* that individual and social responsibility have to work together — and you feel he has tried to do this.

This strong regard for articulating justice through private enterprise has actively involved Erteszek in civic and professional organizations. He is a director of both the Los Angeles Chamber of Commerce and the Merchants and Manufacturers Association. In addition, he serves as a member of the Brigham Young University College of Business/Graduate School of Management National Advisory Council.

A native of Poland, Erteszek received his law degree from the University of Krakow in 1938. After working for a Polish government agency in the United States,

he returned to his homeland to find all his financial resources exhausted.

"On a rainy night in late 1939, I was arrested by a group of Soviet soldiers at the then newly created Soviet-German border. As I was being led to the closest detention camp, one of the Soviet guards walked over to me, picked up a bag I was carrying, and having noticed I was having some problem with my leg, started to carry the bag for me. I still remember the look on this soldier's face, which was both one of embarrassment and concern, for certainly, what he did was not the thing to do for a conquering soldier of the victorious Soviet army, vis-a-vis a member of a vanquished nation."

Erteszek has often told the story of this caring soldier in conversations and speeches. This example of truly concerned action for another human being left an impact on him. He says he has repeatedly thought of that

soldier's obvious concern with service, regardless of the risk of ridicule from others. Yet this sincere example of kindness contrasted sharply with the unjust treatment he saw under Soviet occupation during the height of the Stalin regime. The brutality around him convinced Erteszek that "without the impact of the urge that is spawned in the deeper strata of human emotions, life will lose its meaning and become a ruthless exercise of those who are



Administrative Assistant Maxine Dayley reviews the day's agenda with Erteszek



The Olga Company sales meetings are informal and samples line the walls for review

stronger over those who are weak."

Living in a communist state also committed him to the principle of individual responsibility as a prerequisite to a free way of life. "I realized that the dynamic power underlying man's contemporary dream for economic justice and equality of opportunity was captured and then manipulated by ruthless men for their own ends. Yet the urge itself, for economic and social justice, was authentic and genuine." When he returned to America in 1941, Erteszek says he began to see business as an important medium for achieving man's desire for both a purposeful, fulfilled life as well as his economic aspirations. He was convinced that basic Christian principles provide the know-how to meet individuals' "hunger for meaning, purpose, and dignity." And he saw businessmen committed to this ideal as instrumental in helping to fill man's economic goals and need for self-realization.

Today, Erteszek has become an active spokesman for incorporating Sunday ideals in Monday-



Enthusiastic in relating the success of such company programs as profit sharing and stock options, Erteszek believes businessmen must recognize to themselves and to others the contribution of each employee

through-Friday industry situations. Most companies' annual reports are strictly cut-and-dried financial statements surrounded by pictures of the latest advancements in "widgets." The Olga Report doesn't neglect to display its balance sheet as well as its peignoirs, but in addition states the backbone reasons for the company's dynamic growth: (1) *Man Comes First* — "the success

of the company depends upon each one of its members." (2) *"Participation* is built on the conviction that those who produce the results also share in them." (3) *Trusteeship* is essential "to the consumer, to our fellow employees, to the community-at-large." (4) *Creativity* involves original products and a sense of "company excellence that adds to the strength of our American society." (5) And the *Golden Rule* "is not only a sound policy for living, but for operating a business as well."

This all looks great on paper, but even the nonskeptics have to wonder if this well-meaning philosophy ever gets out of the executive planning sessions and into the daily lives of the production line workers. Yet Erteszek has done more than talk. He has programs that test as well as implement his intentions.

Twenty percent of the company's profits are put into a profit-sharing fund and five percent are used for purchasing stock for employees. In light of this, and the fact that the company



Production Manager Roger Falquez and Erteszek discuss production line operations in the company's Van Nuys, California, plant

finances itself purely from its profits, Erteszek says that Olga is "able to make more money than most of the garment manufacturers in the industry." He adds, "Unless you identify the interest of the company as the interest of the person who is a part of the company, you leave out the climate of legitimacy in trying to sell or promote or impress your team that they ought to work harder or better." He also sees this climate as important to quality, absent-

The employees' financial success is actually tied with the success of the company and Erteszek makes it very clear on "harvest day" that he's not being a "nice guy" — no one is given anything

teeism, the concept of the second mile, and creating a sense of self-dignity. The employees' financial success is actually tied with the success of the company, and Erteszek makes it very clear on "harvest day" that he's not being a "nice guy." Profit sharing is not a management bribe to push for higher productivity — no one is *given* anything. Because it takes everyone to produce in their common-venture organization, everyone participates in the organization's success, and everyone shares. In fact, non-supervisory, nonmanagerial employees have developed up to \$15,000 of vested interest.

Sharing profits isn't the only area where Erteszek has worked to make good one of his basic beliefs — a good company is one where good people become



Erteszek goes over fabric and design coordination with (left) Jan Pack, merchandise manager of design, and designer Rury Ichihara

better. Under a recently introduced plan, each employee, during the course of the year, has the opportunity to state what he or she can do to make the company better. Likewise, Olga associates throughout the company have participated in design creativity sessions. Employees have advanced from positions as sewing machine operator to designer; utility boy to production manager; secretary to personnel manager; clerk to buyer; and floor girl to assistant production manager. A former bell-hop moved up quickly to head two

plants with a 600-employee work force.

Wherever he is in the organization, any Olga associate can take a gripe to Erteszek, provided he first talks to his supervisor, his supervisor's supervisor, and so on up the line. Since his office door is a matter of yards from the main plant production line, no one has to look very far to find the president if there is a problem.

What works for the Olga Company works because Erteszek has communicated and shared his beliefs in individual and cooperative stewardship with his Olga co-workers. He also is equally sincere in his drive to tell this to others in business. In a letter written to *U.S. News and World Report* Editor David Lawrence, that was printed in the magazine as an editorial, Erteszek stressed that preservation of our lifestyle is not enough, our cause must be an expansive universal ideal. "The main difference between Communism and our philosophy of life is of a spiritual character and revolves around beliefs pertaining to the nature and destiny of human beings. Thus, it is in the realm of faith that our conflict must be fought out," he wrote.

"We might defeat the Russians by force of arms alone but never will we defeat Communism by force of arms alone. If we lose the spiritual battle, we will have gained nothing except chaos and spiritual vacuum."

Again, you have to wonder if the "nice theory" ideas get off the paper. Does the bottom line figure really relate to involving production-line workers in planning sessions? Erteszek has faced caustic college students and somewhat amazed and perplexed businessmen curious to see if it's all "for real." It is. And he's

serious in his desire to articulate his belief that the American ethic is rooted in Judeo-Christian concepts. He has written and lectured extensively throughout the country. He sees civic, professional, and religious organizations as focal points in reaching concerned individuals. He is currently at work on a book emphasizing his conviction that life is a relationship of trust and the communal life is a relationship of common venture. In addition, Erteszek has worked with universities in reviewing management education programs. For the past three years, he has helped fund Brigham Young University faculty and student research in organizational and leadership areas, including work values, human satisfaction, career stages, performance, and managerial action. This research will be published with data reviewing younger and older workers' views toward the protestant work ethic and will include analyses of the career patterns of successful professionals.

Erteszek hopes that his business achievements bring him credibility in talking with other executives. He believes he has shown that his ideas of a just system in private enterprise are workable, and that they work for the organization as well as the individual. In fact, they cannot, in the long run, work for one and not the other.

He is also a busy man. But he's not too busy to sit in on marketing strategy sessions or talk with a sewing machine operator about her contribution to Olga. He still gets in an occasional round of golf and a little farming and ranching. But most of his time away from his work, writing, and speeches is spent with his long-

standing partner, Olga, and their three daughters. In addition, he is a director of the Laymen's Movement and an elder in the Brentwood Presbyterian Church.

Erteszek's interest in Brigham Young University stems from an Olga executive and BYU graduate who recognized many of the same shared commitments. Erteszek has supported the University because he feels it has "the freedom and the credentials to operate in a climate of Christian conviction. The need for the 'additional dimension' of Brigham Young is now not only an esoteric or noble objective of people of good will, but a requirement of pragmatic and practical dimension in the business environment. Hard-nosed businessmen realize that they need this additional dimension, not because they have suddenly developed a new sense of moral purpose, but because their other tools have not worked well enough."

He also feels there is a strong need to bring together others who share his conviction that unless the style of corporate life in the United States is dramatically altered, neither the free enterprise system nor our free way of life will survive. He adds, "Christian concepts are not the concepts of yesterday but of tomorrow. Business is not only a way of making a living, but a way of life."

Until the beginning of the nineteenth century, the vision of responsibility for the weak and the poor rested with Christianity. Erteszek stresses that this monopoly has ended. Communism and socialism, among other socio-economic and political systems, offer alternatives. But he has lived with these alternatives and is convinced "Christianity provides not only

the vision but also the best suggestions for implementation. The implementation of that vision is what I want to do in business." ■

"Christian concepts are not the concepts of yesterday but of tomorrow. Business is not only a way of making a living, but a way of life"



With his wife, Olga, Erteszek founded the Olga Company, and today it lists annual sales of more than \$31 million and production plants in California and Mexico

Return to Literacy

by Warner Woodworth



Much of today's best logic will be irrelevant, even misleading, for grappling with the realities of tomorrow. To keep pace, you need to recognize yesterday's "facts" as primitive and crude attempts to explain a society which has become today's dramatically new world

I've been intrigued recently by responses of people to my inquiry about the kinds and quantity of the reading they were doing. A West Coast professor confided he had read only two books in the past five years; one manager boasted, with a certain disdain, that he had not read a single book since completing his grueling MBA program back more than a decade ago. It is unfortunate that such individuals miss the major intent of school and career. Academia and the work place are but different scenery for engaging in learning. My two acquaintances did not see the importance of reading as a primary vehicle for dealing with changes in theory and application since their student days. The trend toward increasing illiteracy has turned the avid reader into an oddity. Today's college freshman reads at the level of yesterday's junior high school student.

This development is a curious phenomenon of the 1970s. Looking at the historical perspective, Marshall McLuhan has argued that print gave tribal man "an eye for an ear." From Gutenberg's revo-

lutionary invention, mankind has been able to visually produce for the masses information that was previously restricted mainly to word of mouth. Today the world output of books is over a thousand titles a day, some 60 million pages a year being produced in scientific and technological areas alone.

The paradox is that while we are living in a veritable "bookspllosion," we seem to be reading less and less. It may stem from information overload, from the advent of other media, from an increased lifestyle pace, or from our discomfort at having the things we "know" challenged by new facts and ideologies. This last effect is what Alvin Toffler calls "future shock" — the impact of accelerating changes forcing people to relearn continuously, a process that, as it speeds up and broadens its impact, may create too great a strain on the individual. In Toffler's logic, "We are creating and using up ideas and images at a faster and faster pace. Knowledge, like people, places, things, and organizational forms, is becoming disposable." Under such

intensifying conditions books become transient, as evidenced by the giving way of durable, leather-bound books of past centuries to cloth bindings and, more recently, to the influx of disposable paperbacks.

Not in spite, but because, of these times of accelerated social and economic change, we need to return to literacy. University faculty members are often locked in to teaching from old, too-familiar texts. They may be engaged in contemporary literature within a narrow realm of research specialty, but they are often unfamiliar with the hottest best-sellers their students are discussing. And, although in my experience the higher you look in a corporate headquarters, the more you encounter executives reading current books, many managers don't read beyond their own province of finance, personnel, etc. The excuse of the professor is that he's already studied the issue (albeit years ago as a graduate student), and the businessman may rationalize that he is already in the hard-knocks school of producing

goods and services (rather than evaluating and questioning whether things should be produced at all or how to do so better).

The concern remains that in school and work institutions, as well as in the rest of society, reading is passé and the printed page may become an endangered species. I'm aware of the glut of other media—TV, radio, film, newspapers, magazines, public opinion polls, *ad infinitum*. These are legitimate instruments of communication. Anyone claiming interest in corporate America should be reading *Harper's* and *The Village Voice* as well as the *Wall Street Journal*. Yet I'm convinced that nothing can quite take the place of the experience of sitting down with a book. There are lots of substitutes and books in cassette form that can be played in the executive car during the two hours of daily commuting between home and office. (You can now supplement Bach's greatest hits with Drucker on management, and the gimmicks of a thousand hype experts on how to be more effective, how to move up the ladder, the 23 points of good leadership. . . .)

But I'm arguing for a return to the roots of the understanding process—the simple experience of the printed book. We need a renewal of literacy in the sacred halls and the boardrooms of the corporation—a return to reading.

To clarify, I don't bemoan the decline of the book because of a personal interest as a novelist, librarian, or English literature teacher. Rather, my bias stems from the pragmatics of survival, of understanding and coping with the turbulence of today's world and the need to do so on today's terms rather than on an assumption that yesterday's approaches provide a timeless guarantee. Mine is not a

suggestion to cut loose from the past, but rather to emphasize the need to build on it and to link it with the perceptions and ideas and analyses of today. McLuhan has articulated the image of the book as an extension of the eye. Today's books are lenses for more clearly perceiving and focusing upon contemporary events. To the individual a book becomes a way of seeing and making sense out of the social thrusts around us. In coping with the ongoing processes of existence, "What is demanded," said Bertrand Russell,

Reading is passé and the printed page may become an endangered species



"is a change in our imaginative picture of the world."

All this denotes a dynamic process rather than static assurances about life. As a university professor, I believe the criteria for learning among students should not be obtaining facts or worshiping concepts and texts—because these are transitory. Einstein's overthrowing of Newtonian physics is the norm. The emphasis with students must be *learning how to learn*—obtaining the tools for analysis, the methods for thinking, and the awareness of alternative arguments and approaches. Much of today's best logic will be irrelevant, even misleading, for grappling with the realities of tomorrow. To keep pace, you need to unlearn and recognize yesterday's "facts" as primitive and crude attempts to explain a society which has become today's dramatically new world. Unless you continually update, revise, and analyze ideas, you run the risk of perceptual lag which results in frustration (because the world doesn't fit your vision) and in inappropriate and ineffective behavior.

As a case in point, at a recent national conference on business and society, I watched CEOs attempt to discuss regulatory agencies, consumer attacks, minority demands, labor conflicts, environmental criticisms, and international bribery scandals. As they squirmed and struggled to state their rationale and to field questions, it became clear they did not, on the whole, understand either the issues or the strategies of social change. Rather than convincing the participants, their statements rendered contradictions. The holes they dug only got deeper. It became obvious that the pressure groups they were trying to deal with knew a great deal about the corporations. These

special interest organizations had done their homework, studied the speeches and practices of management, and thoroughly delved into specific company business. Yet the executives' sensitivity and insight into the "enemy" was severely limited. They hadn't read ecologist Barry Commoner's views on energy or sociologist William Domhoff's analysis of power and wealth in America. They were simply unable to handle the issues in a defensible and competent way.

Are today's middle managers familiar with Norman Mailer, Jonathan Kozol, and Erica Jong? Or Theodore Roszak, Michael Harrington, Gore Vidal, and Ivan Illich? These, as well as Galbraith, Drucker, and Moynihan are imperative sources in understanding American society today. While I make no pretense of presenting a complete list, the writers mentioned represent the range of depth and erratic quality of thought which exists and which reflects on our institutions and way of life. These authors are becoming highly valued in society, with accompanying rewards of wealth or fame. And they are making an impact.

Now just to reduce the possibility of misinterpretation, I have no illusions about accountants becoming scholars or vice-presidents turning into literary experts. I'm not calling for a revival of the Renaissance man or scholarship per se. But a return to readership — for breadth if not for specific depth — is crucial for an increased acquaintance with information and ideas, histories, and forecasts within the context of society.

In practical terms, there is uncertainty as to how to influence others to read. Can you establish a policy against illiteracy? Most companies verify prospective employees' reading ability before they are hired, but where is the

organization that requires them to keep updated in their reading? The input from current books will mean greater knowledge in decision-making. The payoff for increased reading may be not only better business, but a better psyche and — I'll venture the preposterous — better physical health. Workaholics tend to break down eventually (corporations schedule formal leaves-of-absence and vacations to *force* employees to *rest, escape, change*). People ought to learn to escape while on the job too — get away from the routine of work with the occasional

short, mental vacation that comes from a good book. If the reader counters with "Well, that's all nice sounding, but I'm too busy to just sit and read," my rebuttal is that such a person is going through the motions but forgetting the task. One needs to take time to refill.

Reading can result in a reinvigoration of the mind, a recharging of energy sources. It can increase intellectual curiosity, cleanse the brain, allow for reflection, and point out new territory to explore; in so doing it can repair both the psychological and physical being. In an important additional sense, reading is not a professional responsibility but an opportunity, a mixture of material and ideas with which to have some fun.

An effective person is an individual of ideas who is solidly connected to the contemporary world. The alternative is professional adolescence. Much of the emerging literature is contradictory in image and does not contain nice, neat, orderly resolutions of our problems. But life, personally and professionally, is itself perplexing. Today's publications do not tend to portray our society with easy certainties; but they may provide a mirror. They reveal much about the nature of our complexities and serve as a useful problem statement within which each of us can construct our own framework of analysis.

In terms of the relevance of reading good books, I would predict that successful businesses will become more involved not only with the exchange of goods and services, but with the marketplace of ideas. Reading will help us as individuals — as well as our institutions — become the focus of an interchange of creative thought, of a broadening and deepening sensitivity to the issues of the larger, contemporary culture.

Today's books are lenses for more clearly perceiving and focusing upon contemporary events



From Galbraith to Breslin to Solzhenitsyn...

Current reading focuses on powerful ideas, societal insights, alternatives to mainstream thought, and personal relevancies. The following are widely read titles to help break elevator silence.

Economics: E. F. Schumacher's *Small Is Beautiful* stresses reordering economic priorities to better meet human needs. *The Money Book* by Sylvia Porter is the consumer's bible to tackling home mortgages, auto warranties, supermarket inflation, etc. A. Sampson analyzes *The Seven Sisters*, the major oil companies, and vividly details the impact of these multinationals on the world; D. Bell in *The Cultural Contradictions of Capitalism* explores the paradoxical processes in society which are moving toward a major crisis point in history; and B. Commoner's new work, *The Poverty of Power*, shows how the loss and waste of energy creates a shortage of jobs and capital. *Economics in the Public Purpose*, Galbraith's sequel to *The Affluent Society* and *The New Industrial State*, presents a comprehensive theory of reform for both the public and private sectors.

Biography: Tarrant's account of *Drucker: The Man Who Invented Corporate Society* is a new attempt to explain the man and the context out of which Drucker's concepts of management have emerged; A. Speer in *Spandau* reflects on

the origins and interworking of Hitler's closest associates in the Third Reich; Collier and Horowitz trace the rise and struggles of one of America's great financial power-houses, *The Rockefellers: An American Dynasty*.

Politics: Analyses of the drive for power in the White House have come from several outside writers: Breslin's *How the Good Guys Finally Won*, Dan Rather's *The Palace Guard*, T. White's *Breach of Faith*, and, of course, Woodward and Bernstein's *All the President's Men* and *The Final Days*. (While there are certainly many political books worth reading, Watergate has helped provide instructions for understanding events, relationships, and tactics of organizational hierarchies.) D. Boorstin's sweeping outline of *The Americans* examines our political and cultural development as a people. Essays on the shift from democracy's origins in the U.S. are the focus in I. Kristol's *On the Democratic Idea in America*. Look too for T. White's *The Making of the President, 1976*.

Self-Growth, Learning, Experience: "Adam Smith's" *Powers of the Mind* describes a series of therapeutic activities for decreasing inner stress. Freeing yourself from hypertension and the daily rat race is also the subject of *The Relaxation Response* by H. Benson of the Harvard Medical School. In another view, T. Gallwey's *The Inner Game of Tennis* suggests the parallels between mental processes on the court and coping with nonathletic challenges, advocating specific techniques for your mind/body operations. Pirsig's classic of several years now is *Zen and the Art of Motorcycle Maintenance*, a fascinating inquiry into values, technology, and ways of thinking, perceiving,

and reconciling life's paradoxes. Gail Sheehy's *Passages* is a kind of operator's manual for people as they pass through the crises of adulthood — coping with ourselves after we move beyond the Terrible Twos and the Sweet Sixteens into "maturity."

Management: *Working by Studs Terkel* is an aggregate of taped interviews of workers that is useful for managers in understanding subordinate needs, dissatisfaction, and frustration. For an inside view of the financial world, read Mayer's *The Bankers* on the methods, norms, and integrity (or lack of it) of today's money handling. Two of the most widely read books of the past year that reflect a certain American obsession with power are Ringer's *Winning Through Intimidation* and Korda's *Power!: How to Get It, How to Use It*. Both are essentially texts on moving up the ladder of success. They contain an array of exploiting, manipulating, and self-assertive gimmicks for maximizing interpersonal impact.

Organizations: With an underlying warning that organizations may be dangerous to your health, you can read a variety of works on the oppressive, dehumanizing experience of modern man caught in the treadmill of bureaucracy. You can take your pick of the cops (V. Marchetti's *The CIA and the Cult of Intelligence*) or the robbers (M. Puzo's *The Godfather*). Examined are the healers (I. Illich's *Medical Nemesis*) as well as the whole health-care system (K. Kesey's *One Flew over the Cuckoo's Nest*). The challenge of survival confronts us in Andean air disasters (P. Read's *Alive*), U.S. schools (J. Kozol's *Death At An Early Age*), and Soviet prison camps (Solzhenitsyn's *The Gulag Archipelago*). ■

Skaggs Institute of Retail Management

RETAILING

Some Strong Selling Points

When an industry receives the Department of Labor's highest outlook rating projected through 1985, it should expect "extremely rapid" growth. When that industry is retailing and currently employs nearly 20 million people, it can look for 12,000 to 15,000 new management openings annually from attrition factors alone, not including expansion or growth increases.

A ten-year graph of retailing sales in the United States shows the industry's high resilience. (Since 1967, its seasonally adjusted monthly sales have climbed steadily from \$26 billion to \$53 billion.) In spite of inflation, unemployment, and general recessionary periods, Americans continue to exercise their purchasing power — and retailing is booming.

When the Skaggs Foundation, established by the nation's second largest drug retailers, Skaggs Companies, Inc., approached BYU with the idea of creating a retailing institute, it backed the



Skaggs: "Retailing needs a greater contribution from the academic community than is now occurring"

suggestion by committing \$1.8 million over the next ten years. The result is the new Skaggs Institute of Retail Management which will offer retailing and related courses, develop continuing education programs for professionals, and fund faculty research.

According to Dean Merrill J. Bateman, the major student thrust will be at the undergraduate level, with sophomores and juniors involved in internship programs throughout the country. "We intend for this program to be national in scope by establishing contacts with major retail organizations. We will also enlist the support of these major retailing firms in funding scholarships, research, seminars, and executive training both on and off campus."

Pricing, Displaying . . .

But does it take a college degree to sell anything from fishing tackle and tennis balls to baby food and ballpoint pens?

L. S. Skaggs, Jr., Skaggs chair-

man of the board, thinks it definitely helps. "Retailing needs a greater contribution from the academic community than is now occurring, and we hope the institute will help fill this void." Skaggs stresses that managers need a strong background in merchandising, accounting, finance, personnel, and advertising, as well as specialized knowledge in such areas as pricing, consumer buying motives, store security, and displaying. "Challenging opportunities exist in retailing, and we believe that those who decide to explore a career in this field can be significantly assisted by university training."

To those on the outside, the apparent *pros* of retailing appear to be losing out to the taken-for-granted *cons*. But those who've spent years sitting in on sales meetings and planning merchandising strategy know this isn't so. No one is denying the long hours or demanding consumers. But at the same time, the trade also provides the time to get in up to your elbows and the opportunity to give the public what it wants. The tough competition forces "survival of the fittest." Seasonal trends and fickle public buying patterns encourage special advertising and selling campaigns, as well as forecasting future needs and wants. The fluctuating income proves that earnings and advancements are commensurate with effort. And the hard work — it's still just lots of hard work.

"College graduates have overlooked retailing, and universities in recent decades have almost ignored the field as regards to



Bateman: "We intend for this program to be national in scope by establishing contacts with major retail organizations"

teaching," says John Hartman, Skaggs vice-chairman of the board and chief financial and development officer. "The main reason for a retailing institute is the need to point out the opportunities that exist and to attract good people to the whole field of retailing, whether it be Sears, Albertson's, Penney, Safeway, or Skaggs. There's a need to get competent people who are willing

to work and serve the public willingly — individuals who recognize that the customer is the one who pays the paycheck."

Attracting good people to the field means exciting students about the many underdeveloped opportunities in both practical/working areas and research. BYU faculty members have already voiced strong interest in the field — for example, H. Keith Hunt and Darrel G. Clarke in advertising and sales; Michael R. Guerts in sales forecasting; Paul H. Thompson in career development and assessment programs; and Ronald L. Schill in purchasing and cost structure and control.

Pinning Down Performance

The Skaggs Institute will be headed by E. Doyle Robison, a former vice-president and general merchandise manager at Rochester, New York's Sibley's, a division of the Associated Dry Goods Corporation. He has had extensive experience in merchandising, buying, sales development, promotion, and store expansion. Robison sees retailing as misunderstood by most young people. "They don't understand that a person can advance much more rapidly than in many other fields because he can be pinned down to exactly what he can produce — his pay is based on his ability to make decisions. In retailing you can evaluate very closely how a person is performing, and you can afford to pay someone who can produce sales and whose net profit performance is really positive."

While students are now learning of increasing opportunities in retailing, the industry likewise



Hartman: "There's a need to get competent people who are willing to work and serve the public willingly — individuals who recognize that the customer is the one who pays the paycheck"

recognizes that it needs greater input and better qualified individuals. For the Skaggs organization and many other large retailers, this is critical.

"We're tending to grow at a rate where we can't raise up people inside of the company fast enough to meet our expansion and maintain the quality that we aim for," says Skaggs. "Individuals with an understanding behind

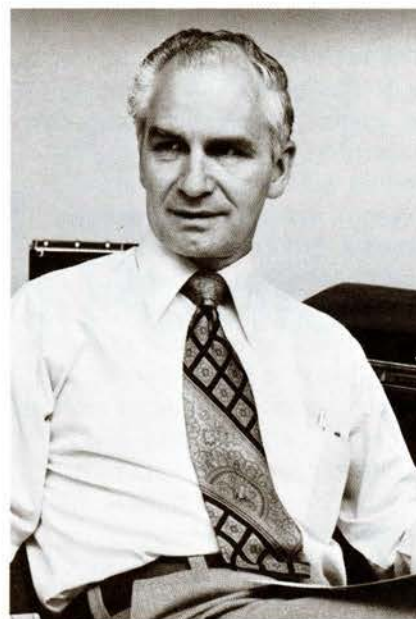
them of statistics, marketing, human relations skills, and accounting will not require many years of training before moving into management positions. They will bring these abilities with them to the industry and will be ready to assume responsibility."

Anyone in retailing knows that for many the classic banking hours just don't exist. Whether it's Woolworth's or Bloomingdale's, some individuals can expect *not* to work eight to five, five days a week. "Retailing needs people who are not afraid to get their hands dirty," says Skaggs. "If they are, they won't like it because they definitely will get their hands dirty. And with this comes experience and responsibility. It isn't just a joke when you start signing an order for \$10,000 or \$20,000 worth of merchandise and it ends up sitting on the shelves. You learn to make some hard decisions, and you learn very quickly."

When it comes to making quick, hard decisions, the Skaggs organization doesn't need to open the front door to find a prototype that makes Horatio Alger look like an underachiever. In 26 years, L. S. Skaggs has taken a family business of 11 stores and 9.5 million in sales and developed it into 248 stores in 22 states with sales of \$625 million and \$13.2 million net income last year.

Cheaper by the Dozen

Not bad for an organization whose origins stem from an Idaho farmer and Baptist minister's supper table. L. S. Skaggs' grandfather raised six sons and six daughters and could have coined the phrase "cheaper by the dozen." He bought case



Robison: "In retailing you can evaluate very closely how a person is performing, and you can afford to pay someone who can produce sales and whose net profit performance is really positive"

goods to feed his family, and it wasn't long before he had his sons out selling extra case lots to neighbors. Soon the family established a small grocery store and later acquired various other stores, including a small chain in California named Safeway. Ultimately, the six brothers, and by marriage several of the sisters also, spun off of the original firm to organize or direct many of the

major retailing companies in the West, including Pay Less, Long's, Sav-on, Safeway, and Skaggs. It was L. S. Skaggs, Sr., one of those six sons, who 37 years ago started what is today the second largest drug chain in sales in the nation. After his death in 1950, his son, L. S. Skaggs, Jr., took over the company with one of many formidable goals in mind — he was 25 and wanted to be number one. Back then, Skaggs decided that the competition was not going to change his plans, and today Walgreen's can expect to hold the top spot by dollar sales until 1981. At that point, Skaggs, Jr., will have made good his self-challenge. But a company whose earnings were up 32 percent last year (and profits increased 39 percent and 57 percent in 1974 and 1973, respectively) isn't going to let the cash registers get dusty. In fact, investment banking company Kuhn, Loeb and Co. reports that drug chain sales "will grow at perhaps two times the industry rate. Furthermore, a few of the larger chains should grow at as much as twice the rate of all drug chains." During the past five years, Skaggs' sales have jumped 95 percent, and income during this time has increased 158 percent.

Skaggs Companies, Inc., is the largest Utah-based corporation in the state. The company-established Skaggs Foundation, as well as L. S. Skaggs himself, has taken an active role in community and educational developments, including major financial support for the University of Utah's school of pharmacy. Backing the Skaggs Institute of Retail Manage-



This 1940s forerunner to today's Skaggs drug centers was part of the Pay Less Drug chain. Skaggs Companies, Inc. has 248 stores and annual sales in excess of \$625 million



ment further indicates the company's willingness to support administrative and leadership training for young people. In addition, both the University and the Skaggs organization recognize the need to bring retailing managers together in on- and off-campus seminars to help them increase their understanding of industry problems and long-range, as well as immediate, business issues.

Through this institute, the University intends to provide significant leadership and research for the retailing industry itself. With this program of research, executive training programs, and qualified, experienced young people entering the industry, retailing can expect to provide new ideas, technological advances, and skilled manpower for consumer services in the years to come. ■

THE CHALLENGE OF

Affluence

by J. B. Ritchie

It may seem incongruous to discuss the challenge of affluence in an era of economic uncertainty. As we look at our contemporary world, we may be less than comfortable with international economic instability, high domestic unemployment, accumulation of vast reserves by oil-exporting nations, no-win battles between energy and ecology advocates, and anxious computations of the effect of congressional hearings on New York's financial stability.

Looking at the issue another way, however, this may be the ideal time to discuss the challenge of affluence. Obviously, our current economic situation has us thinking about such considerations; in boom times we may be too busy investing and spending our money to reflect on the value considerations of affluence. Furthermore, perhaps the major source of our current problems can be traced to our attitude regarding "our *right* to affluence." For example, the energy consumption rate in the United States — about 6 percent of the world's population using over 50 percent of the energy consumed each year — has to be seen as a type of index of social and economic attitudes.

Therefore, this may well be a most relevant time to examine our attitude toward affluence. I would argue that we act as if we were living in an affluent society, and furthermore, in most respects we *are* living in an affluent society. We symbolize well-being with new cars and large homes, braces on our children's teeth, color television sets, boats and mountain cabins, skis and ten-speed bicycles, and contributions to charities.

In short, in spite of current problems, we are surrounded by the symbols of affluence. Most of us are very much a part of a society that has gone far beyond the

days of struggling for survival, of always being hungry, and of walking barefoot to school. The challenges of a society where basic physiological needs dominate or where a frontier is being settled are fairly straightforward. The problems and their solutions, while not simple, are generally easily recognized.

However, the challenges resulting from success and affluence are not so simple. In traditional economics the primary focus is on the conservation of scarce individual resources. But in an affluent society, the focus is on the wise use of abundant resources, including such things as *skill*, *time*, and *knowledge*, as well as *money*.

This problem is much more difficult.

The "American Dream"

The push for affluence, clearly an overpowering goal, has always been seen as a possible means of undercutting the family and attacking worthwhile values. Most of us begin to have trouble with our values when we cross the threshold from "barely making it" to "almost having it made."

For example, we begin to believe that we *deserve* to do well

The assumption about deserving success is often supported by analogy to theological principles, but in this regard economics may not be like theology. The Deuteronomic Code has a strong logic to it: work hard in keeping the commandments, and the Lord promises a reward. Economics has no such logic — risk and change mean there is no sure formula relating behavior and success. So we begin to have trouble. First, we develop a strong sense of competition, demonstrating that one of the strengths of our economic system is also one of its weaknesses. We want enough for our own or our family needs, but "enough" soon means we want *more* than our neighbors. This incentive to get ahead naturally leads to more progress, but progress always has its costs. How prepared are we to really calculate these costs?

For example, several years ago I made a decision to enter the academic world. I made that decision for a number of reasons, one relating to the flexible schedule it would provide with respect to summer activity. My wife and I

We want enough for our own or our family needs, but "enough" soon means we want more than our neighbors

financially. The "American Dream" suggests that if we commit ourselves to being successful and if we work hard, then we deserve to make it. But reality says that, in addition to commitment and hard work, for many of us it may be that having the right skill at the right time and in the right place is also important in determining economic success.

had decided we wanted to spend time as a family traveling, camping, and enjoying the outdoors. This was a conscious decision. But occasionally, and often without realizing it, I find myself computing the additional potential income I would receive from accepting opportunities that would require giving up family activities. Then I really have to force myself back

to my basic assumptions. I made a choice in order to achieve certain goals that I valued more highly than others. I could have made a different choice, but I did not. But unfortunately, most trade-offs are gradual and unconscious to most of us.

One problem is that pursuit of affluence may lead us to discontent over contributions we can make to society. It may lead us to prejudge contributions of ourselves and of others, and it may affect values by forcing us into contradictory or inappropriate ordering of priorities.

In both sacred and secular writings we find many comments regarding wealth, some condemning and some consoling. The condemning part is related to the high probability that those who seek worldly wealth and recognition will become corrupt in the process.

Money and position are a means to the exercise of power in our economic system. Recent business scandals suggest that there

manage corporations to suit themselves. Thus corporate calamities are created by men. And . . . the basic cause of the business disaster is greed, human greed, simple and unadulterated. (p. 292)

Keeping Up with the Joneses

Problems with values, of course, are not limited only to those who have great wealth. The most serious problem is often with those who are only marginally well off. One of the most common difficulties faced by most of us is "keeping up with the Joneses." There was a time when the Joneses were pretty easy to keep up with. Most of our associates, like nearly everyone else, were in about the same economic class — a class that had to struggle for basic survival, not for luxuries. Great wealth belonged to the Rockefellers, the Morgans, and the Vanderbilts. Those who were really rich were too far removed from most of us to present much of a challenge. But now the conspicuous consumers are next

First, some of us may need to abandon the idea that the Lord has promised us great wealth. If we live righteously and do the best we can, the Lord has promised we will have enough to care for our needs. But his determination of what is "enough" may be different from ours.

Remove far from me vanity and lies; give me neither poverty nor riches; feed me with food convenient for me: Lest I be full, and deny thee, and say, Who is the Lord? or lest I be poor, and steal, and take the name of my God in vain. (Proverbs 30:8-9)

If we obey his commandments, the Lord will bless us. But that does not mean he will bless us with more than our next-door neighbor. In fact, he may bless us with less.

Second, we need to consider the way we make money. Most people earn a living by selling their labor, or goods produced by their labor, to others. The subsequent possibility for exploitation is very high for both the buyer and the seller. Employee integrity in performing a job and employer integrity in dealing with subordinates are both threatened in contemporary organizations. The cry for honesty should be loud in an affluent society.

Third, the express goal of making a lot of money so we can "help others" or promote "a good cause" is a dangerous one. While this may be a result, means and ends have a strange way of becoming confused. The more appropriate commitment would seem to be to a life in harmony with divine principles. Then, if circumstances and our best efforts result in wealth, that wealth can be used for a good cause. Becoming rich in order to better live a Christlike life or living righteously in order to become successful or rich illus-

Nearly everybody has an upper-class "Jones" to keep up with. That can become a very destructive game

are many individuals exercising "unrighteous dominion" in order to achieve and maintain their economic position. They exploit others by various forms of control or even by setting up unreasonable expectations which others are unable to attain. A book entitled *Great Business Disasters* (Barmash, 1972) puts the issue as follows:

Corporations are managed by men; and men, never forget,

door. Nearly everybody has an upper-class "Jones" to keep up with. That can become a very destructive game.

Our consideration so far has been with problems each individual should be aware of in an affluent society. Because of the potential dangers, it is imperative that each of us identify the means of keeping our values in order while pursuing economic achievement.

We act by choice rather than by necessity and are therefore more accountable for our actions

trates the very essence of the "right thing for the wrong reason." Those who become successful *and* live honorably provide useful evidence that the two are not necessarily inconsistent — a very important lesson.

The Struggle for Luxuries

While there are ways individuals and society might compromise their values, let us explore some components of a positive social attitude toward affluence.

We are free from the struggle for survival, although it has often been replaced with the struggle for luxuries. We have education, health care, and the time and resources to serve our fellowmen as we have never had them before. Affluence has brought new opportunities to learn and expand. A new attitude toward education is reflected in an increasing number of current students of all ages. Rather than just a means to a job, they see education as a vehicle to help them appreciate life, understand their fellowmen and the world, and make them better parents and citizens. In short, education can provide the potential for living a good life rather than just an avenue to making more money.

As we are freed from the purely physical struggle for existence, we miss the discipline that comes to those who survive the conflicts. We must replace that physical discipline with a mental and spiritual discipline. Such disci-

pline requires self-imposed rather than external standards and control. We need to know more so that we can intelligently analyze the increasing number of alternatives which present themselves to us. We need to make choices more carefully because with increased opportunity to make good choices comes the increased chance of making a bad choice and suffering the consequences thereof. The burden of affluence carries with it the burden of more enlightened decision-making.

Another dimension of affluence is strongly rooted in the universal ethic of loving your neighbor. If we have the resources, we ought to use them in the service of our fellowmen. A variety of things can be done for those not prepared to cope with the world or for victims of misfortune. Endless opportunities exist to help people through difficult times and to try to assist them to a more meaningful life. Our affluence also forces us into a larger world in many respects. Our narrow geographical boundaries give way as travel and communications bring all mankind close together. Our definitions of *brother* and *neighbor* expand to a global concept.

Real, Not Fringe, Benefits

Many young people have critically examined our affluent culture and have reminded us, often poignantly and sometimes in bizarre ways, that among the real

benefits that affluence can provide are the time and resources needed to really enjoy those things that have always been ours — nature, family, and our fellowmen.

Of course, one of the most discussed contemporary issues related to affluence deals with the use of natural resources. Respect for our total environment is a condition necessary to maintaining any of the benefits of affluence in the future. The most significant benefit of affluence — the opportunity to choose among many alternatives — is clearly constrained by our utilization of current resources.

Also, in order to justify itself, I would argue that an affluent society may have to commit itself to increased support of the arts. Good music, drama, literature, and dance have great potential to lift us to a more noble view of ourselves and others. It is interesting to note that throughout history, all societies, both primitive and sophisticated, even in times of struggle, channeled substantial resources into culture, art, and education in addition to the creation of capital.

While many yearn for the "good ol' days," it is worth noting that the goal of people who lived then was to achieve the very opportunities we now have. They had little choice in their decision about what was important; our affluence has given us the opportunity to select among many alternatives. We act by choice rather than by necessity and are therefore more accountable for our actions.

The question, in the current setting, is whether we are wise enough to use our resources to facilitate rather than to hinder providing the greatest good for our fellow human beings. Such provision may not be easy, but it demands our best effort. This is the challenge of affluence. ■

An abstract sculpture made of numerous cardboard boxes of various sizes, stacked and arranged in a complex, three-dimensional structure. The boxes are light brown and have some visible tape and staples. The arrangement creates a sense of depth and complexity, with many boxes partially obscured by others. The overall shape is irregular and organic, resembling a modern architectural structure or a large-scale model.

Understanding the **ORGANIZATION**

or How I Spent My Summer Vacation
by Paul D. McKinnon

Illustration by
Brent Burch

Although the view of organizations or individuals as being rational has changed, some people continue to think that somewhere, somehow, a given set of rules will be discovered that will ensure business organizations of efficient operation

One of the easiest ways to envision organizations is to think of them as machines or precisely running instruments, things that operate by a given set of predictable rules. If something goes wrong, you just fix it — like repairing a flat tire so that the car runs just as well as it did before the flat. This is similar to the thinking of seventeenth and eighteenth century scientists who felt that the world operated on a given set of rules and that true science or true scholarship was discovering those rules; by finding those rules, you could determine the course of the universe. Later discoveries and further increases in knowledge led to a new definition of science. This new definition accounted for new complexities in the world and allowed that, although the world didn't operate according to a given set of rules, it was

indeed understandable.

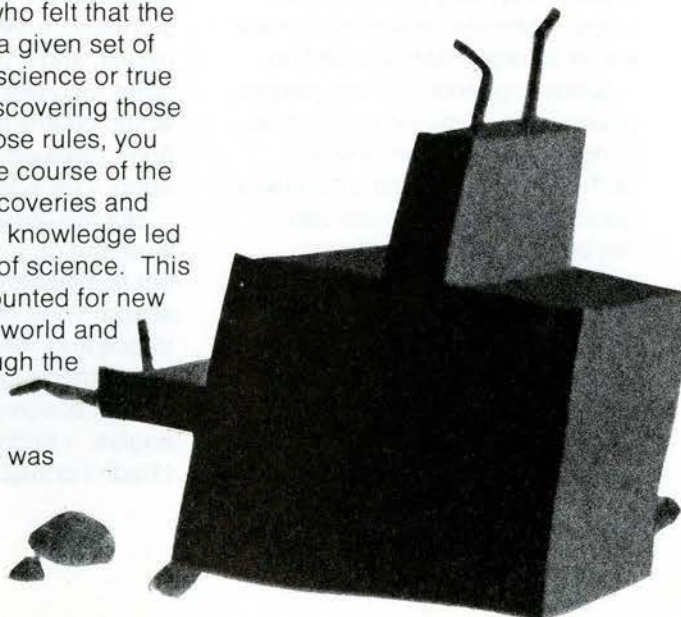
Early organizational theorists had the same type of feeling about organizations and bureaucracies. People, again, felt that bureaucracies were rational. Somehow, they should operate according to a given set of rules. The study of organizations would lead to the development of a certain set of hard-and-fast rules that would

allow every organization to operate easily, effectively, and efficiently. Much work was devoted in the early part of this century to discovering those precise rules.

As this century progressed, however, it was shown that such rules and such a view of the study of organizations were inadequate in that they did not accurately reflect the way things were. Although the view of organizations or individuals as being rational has changed, some people continue to think that somewhere, somehow, a given set of rules will be discovered that will ensure efficient operation for business organizations. Some businessmen, for example, continue to seek a certain "right way" of running their business just as they seek a "right way" of handling the people in their organizations.

Such was my thinking during one year of study in organizational behavior. After fairly intensive classwork and reading, I felt that I had a good understanding of how organizations operate. Yet my assumptions about organizations were of the same type as those held by seventeenth and eighteenth century scientists. I felt that organizations were giant machines, that they operated according to certain well-defined rules, and in order to understand organizations you simply had to learn those rules. In short, I felt that I was ready to face some "real world" problems.

At this time I was given the opportunity of working for three months in a company as a summer intern. My role, or my title anyway, was that of consultant. At least that's what I was called. The company that I worked for was a large, oil-related industry producing tools, equipment, and chemicals. I worked for a subdivision located in a large city in



the South. The main problem in the organization, as they defined it, was the very high annual turnover for lower-level employees, in some job classifications up to 100 percent. This would not be too serious in organizations where the lowest level is comprised of unskilled workers who can be easily replaced. In this company, however, the lower levels were highly skilled. In order to perform and to compete, these employees had to be well qualified in electronics and, in general, knowledgeable about the oil industry.

When they hired me, they asked if I would determine the reasons for the high rate of turnover, recommend what should be done, and suggest some things that could be changed. They wanted to find the parts of the old machine that were broken or worn out and no longer working. The company hadn't had a real problem in the past, but in the last three or four years the turnover rate had become increasingly worse.

To me, it seemed like a very clear case. I would go out and do a lot of interviewing — talk with as many people in these job classifications as I could; talk with as many managers as I could; and talk with as many top-level people as I could. Then I would put all this information together, know the reasons that workers were quitting, and present those reasons to the head of the organization. He, in turn, would take those suggestions, consider them, and, if he believed them good recommendations, would implement them.

At the outset of the project everything seemed very clear, almost simple. Arduous perhaps, but in scope it seemed very simple. This tied in very well with my view of organizations.

Yet as I got more involved in my study of the company, it seemed like nothing that I had learned applied. I couldn't think

how anything related to what I had learned in my first year. In fact, it seemed like I was no better prepared after one year in the organizational behavior program than I would have been had I been in the same position a year before. After a short amount of time, I had all but abandoned any conceptual, theoretical understanding of what I was doing and more or less just "winged it" on my own. I did a lot of interviewing, but I really didn't see any implications with theory.

My main problem at this time was attempting to make the organization fit into a predetermined scheme — a rational, clear-cut, and very impersonal system. Now, all of a sudden, I was dealing with people. The things that I did hadn't worked the way I had expected.

After two months, maybe even three months, I began to see a new conceptual scheme. I also made several discoveries.

Organization is a process — not a unit; it is something people do. They combine together and form a system. They all give something and they all get something in return. People comprise organizations and people operate out of self-interests. In order to understand organizations, you have to understand what it is that people are getting out of the organization. The value of the rewards that they are receiving helps determine how they operate within an organizational setting.

Since organizations are people, people who combine to do something for an outcome of what perhaps is considered a common good, then organizations cannot be considered machines where you can replace one little part with something else. That one person you replace may be the key individual and the whole system falls apart at that point. There are no exact replacement parts. In fact, if you keep attempt-

ing to replace the same part, you're almost destined to fail. So organizations become vastly more complex, and so do problems. It may not take more effort (although most of the time it does) but the methods of dealing with these complex problems are totally different. In fact, the model of an organizational change agent is not one of a mechanic who can tinker with parts or replace them. Instead this individual becomes more of a politician, someone who is willing to work with people and make sure that the proposed changes are acceptable to the right people. The value of any change as determined by those within the organization will be substantially different than the value of that change as determined by someone outside. Those with power in the organization must see the value of any given change in order to insure success.

It became very clear to me at the end of my internship that people are not simple and, likewise, organizations are not simple. People have self-interests, and regardless of how good or bad suggestions are, the likelihood that they will be implemented is determined by the perceived value of the change by those within the organization.

As I ended my internship and presented my final report to some very high-level people in the organization, I was told it was authentic, it clearly identified issues, and it presented some very good recommendations that would clearly help the organization. I walked away thinking, "All right! I really did a good job."

But the report at that point was filed, put on a shelf, put in a box, put somewhere, but never looked at again and never considered. In defining, writing, and presenting recommendations, I really hadn't looked at some of the political angles. I hadn't considered power. I hadn't considered who was

Organization is a process — not a unit; it is something people do. They combine together and form a system. They all give something, and they all get something in return

actually going to implement the changes. I made some rather impersonal recommendations that everyone agreed were good, but at the same time they all understood that nothing would be done about them. Just because a suggestion is good, it doesn't mean it's going to be implemented. You have to do a political sales-job in order to get anything done in any organization.

I then began to formulate a different strategy of studying organizations. An example that I came across further developed my thinking. C. P. Snow in his series of lectures entitled "Science of Government" described the efforts to develop radar at the outset of World War II. He noted that the developers of radar were able to push it through government red tape not because of top politicians' support but rather because they convinced the

middle-level bureaucrats of its usefulness. As a result, the development of radar was carried out quickly, passing through the proper channels without delay so completed units could be installed for the Battle of Britain.

According to a classic bureaucratic model, decisions and effectiveness should not be determined by lower-level individuals. But you need only reflect on your own experiences in large organizations to see the truth of what Snow was talking about. In order to understand how and why an organization operates, you have to know what is meaningful for those inside the organization. This creates disadvantages for the external consultant because he really can't understand the value system of those within the organization. It also poses problems for the boss trying to control others from a distance.

It was about this time in my thinking that I began to wonder whether there was actually a field of organizational behavior, or whether it was just a matter of correctly playing politics. I wondered why you should study organizations if there were so many variables, if things didn't really operate according to a pattern. At that time, I began to reflect back on those things that I had studied in my first year and had continued to study. And I drew some conclusions. I realized that organizations are not indecipherable or alien. They do operate according to reasonably consistent patterns. Many organizational theories that have been developed in the last 10 to 15 years go a long way in explaining how organizations actually operate. This, I feel, is what the field of organizational behavior can contribute — theories and studies of organization.

Theories have often been written off as impractical, as good for university studies but not for anything else. However, theories are able to account for many variables, including some that may not be readily apparent to those actually in the situation. Theories also give direction to those trying to understand their position in the organization, and to recognize why things do or do not happen.

Those trying to understand organizations as being very rational and machine-like will find frustration. What is happening in reality will not correspond with what they think should happen. Just as early scientists were eventually forced to abandon inaccurate assumptions regarding the nature of science, those seeking understanding of life in organizations must abandon some rather traditional assumptions about how people operate in organizational settings. ■

MINDING YOUR BUSINESS-- THE AUDITOR

by Jay M. Smith

What has happened to the ethics of America's business and government? Both in America and abroad newspapers bring to light new disclosures of Americans involved in questionable ethical and moral behavior. Government leaders are charged with sexual promiscuity, expense-account padding, accepting kickbacks, offering bribes, and using tapes to blackmail. Corporations have acknowledged foreign payoffs, illegal political contributions, and manipulation of financial statements. Americans are not the only ones involved in such activities — or even the most flagrant offenders — but the American image, with its emphasis on freedom, democracy, and high ideals, implies that more should be expected of its citizens.

Although there seem to be immediate outcries at each new disclosure, business tends to rationalize its position and go back to its daily routines. "It's just part of doing business," many executives claim. "You can't operate profitably in many societies unless you participate in the same financial games that other countries play." Yet some businessmen

argue that this philosophy leaves everyone the loser. As more disclosures come to light, questions are raised: Who should decide what is moral in business and government? Is it the people at the marketplace and at the polls? Should government agencies be responsible to police their own house as well as American business? Or should the control come from the private sector itself? Can American business restore order to its house?

Government Views Morality

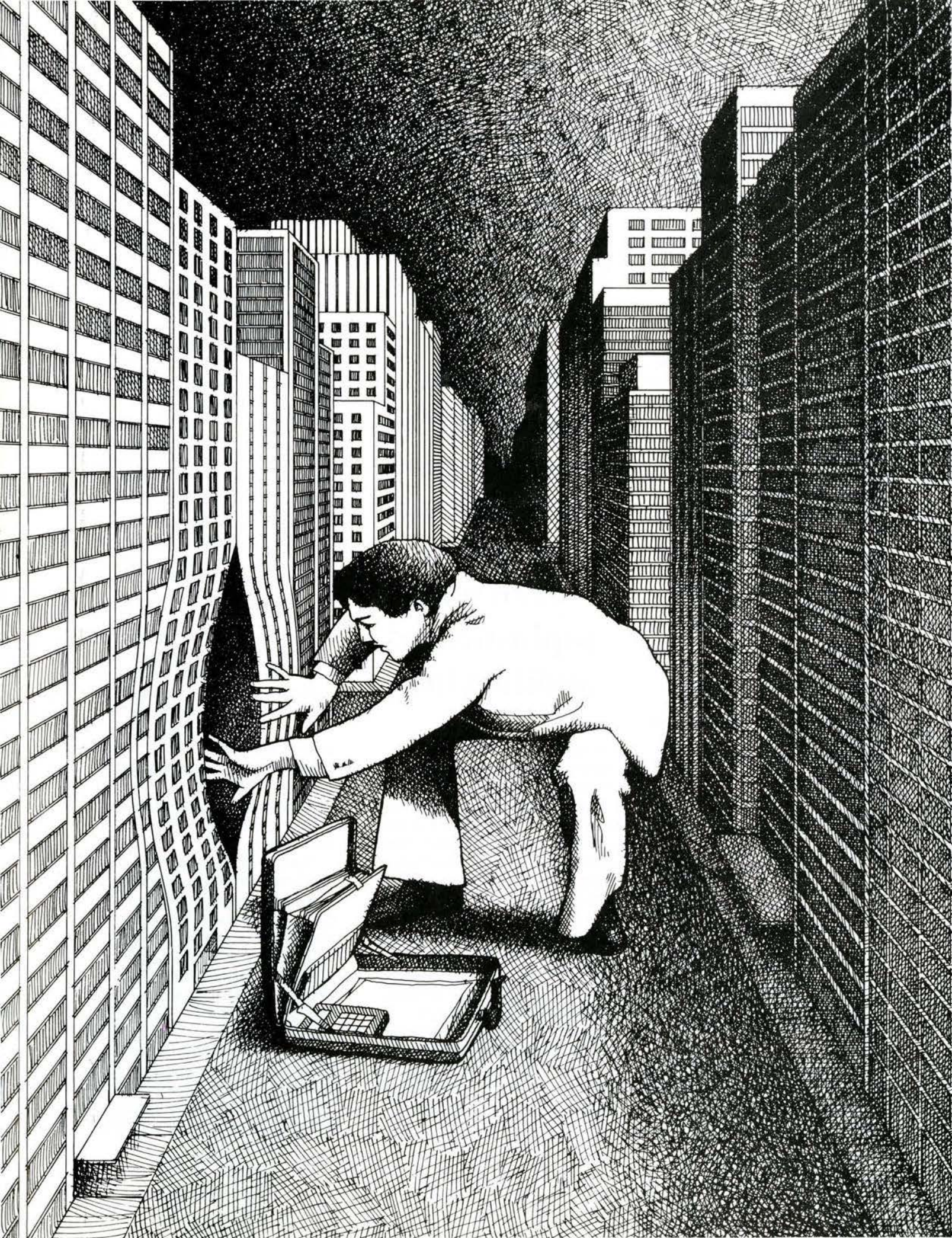
It is clear that the government is moving into the ethics area. When the Securities and Exchange Commission asked corporations to voluntarily disclose any illegal or questionable payments made abroad, more than 100 companies responded with public disclosures of such payments, some clearly material to the resources of the company involved. The Internal Revenue Service has proposed a detailed questionnaire to be answered by corporations to determine if illegal deductions have been included on their tax returns. President Ford has asked for additional legislation requiring

companies to report payments intending to influence, directly or indirectly, foreign government officials.

At the same time many businesses have initiated conflict-of-interest policy statements or enforced those already in effect. At least publicly, they agree that some changes are necessary. The private sector has another voice addressing this problem — the certified public accountant, who serves the business and financial community as an independent auditor. Many CPAs are hesitant to become involved in this area, but as questionable activities impinge upon financial statements, they find themselves drawn into the controversy. No longer can the rationale of materiality protect the auditor from determining accountability when an audit is performed.

Out of the Dark Ages

To better understand the alternatives facing the auditor, it is necessary to trace the major changes in his role over the past centuries. Audits began during the feudal period in Europe when the lords of the manors would hire an



individual to publicly read transactions. The subjects, few of whom could read, would have a chance to hear the report and either accept or reject the results. As one historian wrote, "To audit is to hear whatever may be said on the subject in hand, with a view of passing judgment generally applied to the examination and passing of accounts by persons denominated auditors." If the peasants felt someone had his hand in the till, they would follow through and eliminate the problem if they had sufficient power to do so.

It was probably these early experiences that led auditors not only to examine the overall position of the company, but to actually look for fraudulent entries and activities. Many would-be thieves were suppressed by the threat of discovery. But as societies became more complex, no longer were detailed reviews of all business transactions possible or even desirable. Creditability of financial statements was still important, but it had to be achieved by audit techniques that permitted test checks of the detail, evaluation of the internal control, and overall review of the summarized data's soundness. The detection of fraud, whether by employee or by management, was accepted as a secondary function. Instead, primary emphasis was placed upon the auditor's report and its announcement, "These statements fairly present the financial position and results of operation for the periods indicated." This attitude is captured in the current statement of auditing standards issued by the American Institute of Certified Public Accountants (AICPA):

The ordinary examination directed to the expression of an opinion on financial statements is not primarily or specifically designed and

cannot be relied upon to disclose defalcations and other similar irregularities although their discovery may result.

Public Expectations

Even though the auditor openly denies responsibility for the moral activities of his clients, the public continues to believe the independent audit report gives some assurance against fraudulent ac-

Carefully concealed fraud and collusion are difficult to detect even with sophisticated auditing tools

tivities in the company. In an extensive survey of financial-statement readers, it was discovered that 66 percent felt that detection of fraud was the auditor's number one responsibility. However, legal liability issues have caused the auditor to be leery of assuming additional responsibility in this area. Even without accepting the role the public thinks they should, auditors have not fared well in the courts. Case after case involving both civil and criminal charges have been brought against both large and small CPA firms. Many have been settled out of court. In cases involving court action many of the auditors have been acquitted. But in several landmark cases the auditor has

been found guilty. In most of them the court has held that the auditor did not adequately perform his function in detecting serious manipulation of the financial statements. The defense, in indicating that the auditor followed common audit practice, failed to persuade the court. For example, in the first major criminal trial involving an auditor, the Continental Vending Co. case, the major defense argument involved procedures which experts claimed were not required by the profession. But the court held the auditors to a higher charge and found them guilty. According to the courts, the standards applied were not representative of what the general public expects.

Auditors Look at Themselves

It was in this environment that in October 1974 the auditing profession, under the direction of the AICPA, sought to establish the responsibilities of the auditor. Was the auditor filling the role expected of him by business? By government? By the public? If not, what changes would be necessary to better meet these expectations? The AICPA study is not yet concluded, but a list of concerns has been published, and the question of responsibility for management fraud and questionable business activities is one of the more prominent issues.

The fact that great differences in views exist among auditors was revealed to the author when he conducted a research survey of audit partners of several national CPA firms. The partners were given a case study involving a company distributing semifinished and finished boats. The semifinished boats were distributed to another company that finished and sold them. The company involved in this activity was completely owned by six officers of the manufacturing company — a company

whose stock was fairly widely sold. The sales prices for the semi-finished boats provided little profit for the manufacturing firm but allowed considerable profit to the distribution company. The audit partners were asked what responsibility, if any, the auditors would have to detect and disclose this relationship. Responses varied, but on the whole most partners interviewed did not feel the auditor had any special responsibility to detect or disclose this type of relationship, even though the outside shareholders of the manufacturing company were being hurt by the relationship. The respondents emphasized that auditors cannot be the conscience of America's business.

A Voice of Conscience

But the auditor is in a unique position to act as conscience, and he should do so. Though the client pays for the service, independence of conclusion has long been an auditing trademark. The profession is governed by a generally accepted code of ethics. Opinion differences between client and auditor are now being resolved more successfully through audit committees composed of external members of the company's board of directors. Use of a separate group on the board has the auditor reporting to someone who would probably not be involved in any questionable company activities. The audit committee is usually given the responsibility to interface both with the independent outside auditors and the internal auditor.

The auditor is also well qualified technically to perform an expanding role in this area. In most states, entrance to the profession requires either a bachelor or a master's degree in business, with an emphasis on accounting skills. In integrated university accounting programs, students are trained in broad business subjects as well as

in more specialized areas. Passing a rigorous two-and-a-half day examination is needed to qualify as a CPA. Ongoing training programs are conducted by national CPA firms as well as by the AICPA. Audit techniques have been streamlined and designed for computer assistance in performing the audit function. This streamlining includes expanded

Ultimately business must clean its own house and establish its own standards of morality

use of statistical sampling techniques that allow auditors to statistically determine the reasonableness of the accounting records. Many feel that these tools would have uncovered the fraud of the Equity Funding case before it reached the massive size that preceded its discovery.

Despite these attributes, auditors have been reluctant to accept an expanded role. Carefully concealed fraud and collusion are difficult to detect even with sophisticated auditing tools. If the auditor accepts some responsibility in this area, will the public demand infallibility? Will this expectation be taken to the courts where an impossible standard may be imposed to the financial detriment of the entire profession? Some-

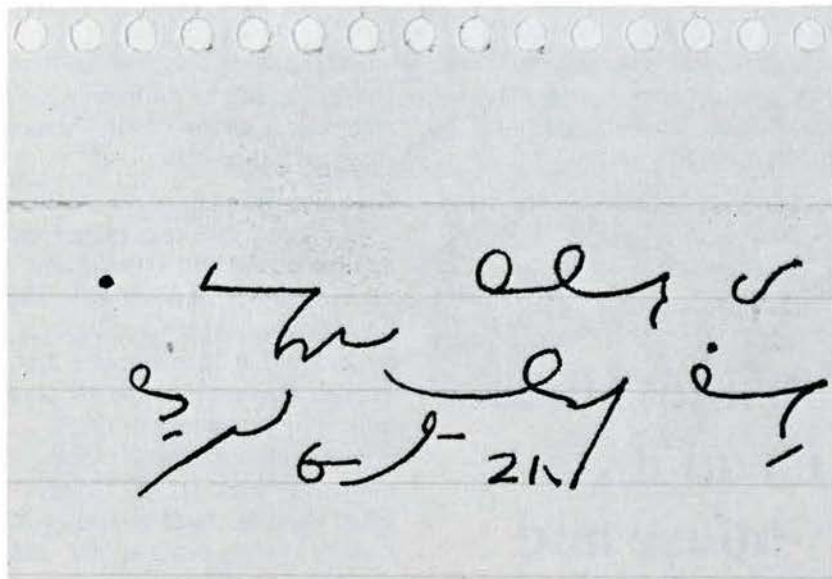
how a balance must be reached as to a reasonable liability to place upon the auditor. This same situation faces other professionals, i.e., doctors and lawyers. If some restriction on their liability is provided auditors, they may be more willing to assume additional responsibility as the conscience of America's business.

Cleaning House

Ultimately business must clean its own house and establish its own standards of morality. Based on the events of the last several years there is no assurance that today's government can successfully control morality or that it should determine what moral standards must prevail. Every effort must be made to keep such control in the private sector. Education for businessmen and accountants must address the topic with the hope that a common posture can be obtained in the private sector.

Auditing is entering a challenging area. One writer likened the auditor's position to that of the oarsman in a crowded rowboat. Near where he sits in the boat, the auditor suddenly discovers a hole. He's not responsible for making the hole, and he cannot be blamed for finding it, but he has an inescapable responsibility for attempting to repair it. If he remains silent, his responsibility is as great as though he had caused the hole. And maybe, just maybe, the statement made to the author 20 years ago is no longer true. When I questioned a fellow army auditor concerning business practices he was condoning, such as under-the-table sales, he said, "Jay, you'll never be successful as a CPA. You're too honest." All of us can speak up more forcefully for moral values, and it is time for the auditor to assume much of this responsibility in today's business environment. ■

EXCHANGE TAKING INVENTORY



LESS IS MORE; SPEED IS POWER

For 50 years the success of many executives, as well as secretaries, has depended on John Robert Gregg's system of shorthand. But *The Wall Street Journal* writes, "Now Gregg and [publisher] McGraw-Hill face a challenge — a shorthand originated by Edward L. Christensen, professor of business management at Brigham Young University."

The *Journal* explains that "a computer analysis of the English language helped develop *Century 21*. The analysis determined the most frequently used alphabet letters, words and phonetic combinations. It also determined the directional flow of the longhand writing most Americans employ. The results, [publisher] South-Western says, is a shorthand incorporating large parts of Gregg while eliminating its inconsistencies, idiosyncrasies, and other 'glaring shortcomings.' "

Working with Christensen have been BYU faculty members Ted D. Stoddard and R. DerMont Bell, both of the business education department, and Mary Ellen Oliverio of Columbia University and Berle Haggblade of California State University, Fresno.

Taught in all 50 states and overseas, *Century 21* shorthand was first offered at BYU in 1962. After continued research and modifications, the system was marketed nationwide in 1975. The method has been widely adopted by universities, junior and community colleges, and high schools.

In its promotional material South-Western emphasizes computer involvement in data processing of vocabulary, numbers, phonetics, and frequencies in word beginnings and endings. The company is marketing texts, tapes, charts, and self-paced learning manuals of the *Century 21* method.

Keeping the Numbers Straight

It's still possible to sell your birthright for a mess of pottage, especially if you are an accountant with flexible ethics.

Accounting students are looking at some professional pitfalls in a new class offered this fall by the Institute of Professional Accountancy. The course doesn't intend to remold principles but examines some of the "grey" areas encountered on the job.

Men such as IBM's Thomas J. Watson, Jr., GM's Alfred P. Sloan, J. C. Penney, George Washington Carver, Thomas A. Edison, and Henry Ford and their philosophies are examined by students. Case studies, as well as lectures from legal, government, and accounting professionals, are also included in the class.

"The students gave ideas for the problems they foresee in their careers in the area of ethics," said Karl M. Skousen, professor of accounting and course instructor. "We're looking at very practical situations. The students are resolving individually to set standards that they won't compromise. They also study the professional ethics of the American Institute of CPAs."

Above all, each student states his own views in papers on such topics as: the importance of ethical behavior in discharging contractual liabilities to clients; trends in court cases and the accountant's liability to third parties; what it means to be a "professional"; and the student's personal code of ethics.

INTEREST AND PRINCIPAL

Every university appreciates the support of professionals — especially when it adds up to \$1 million.

When the National Advisory Council of the College of Business/Graduate School of Management held its annual meetings last November, the 70 members voted unanimously to donate \$1 million to the school.

"The National Advisory Council members themselves came up with the idea to raise \$1 million over the next five years," said Robert N. Sears, NAC chairman. "They saw the inadequate facilities, the increasing enrollment in business and manage-

ment courses, and the need to continue recruiting outstanding students and faculty members."

Sears, senior vice-president of Phillips Petroleum Company, has met with NAC members for sessions in New York, Los Angeles, and Salt Lake City since the meetings last fall and found both their moral and financial support overwhelming.

"I sincerely feel the National Advisory Council is committed to serving the graduate school and college," says Sears. "The new management building alone will cost \$12 million and additional funds are needed for academic programs, research, endowed

chairs, reference material, and scholarships. While each NAC member has pledged his financial support, these individuals will also be helping the school raise money from other sources for its development program."

The National Advisory Council members, all of whom are leading officials in either the public or private sectors, are contacting individuals and businesses to ask their support of the school's goals. In addition, the NAC members help with job placement and internship programs, counsel students regarding professional goals, attend seminars, and arrange for campus speakers.

Looking to Developments in Economics

Markets for goods, sources of supply for materials and investment outlets, and population pressure (if trading opportunities exist and domestic full employment is maintained), are excuses for imperial adventure leading to war, not causes. The causes lie in the drive to domination or the breakdown of the balance-of-power equilibrium.

Charles P. Kindleberger's statement from his book *Money and Power* is based on consulting, research, and writing on economic development, international monetary relations, and European economic history. Currently Ford Foundation Professor of Economics at MIT, Kindleberger will hold

the J. Fish and Lillian F. Smith Chair of Economics at BYU this winter. He will lead a series of seminars for students and faculty members as well as address the studentbody at large.

One reviewer has written, "Kindleberger's *The World in Depression* is the best book on the subject, and the subject, in turn, is the economically decisive decade of the century so far."



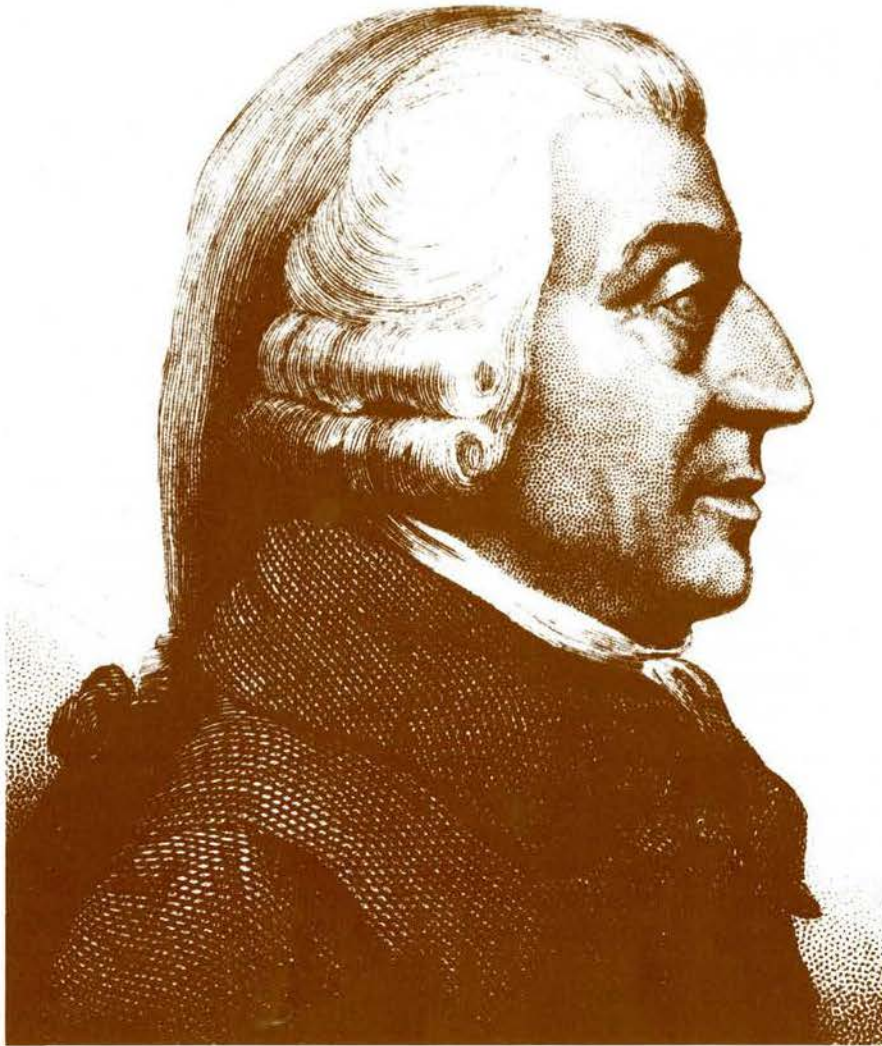
Charles P. Kindleberger

Kindleberger is also the author of *Europe and the Dollar*, *American Business Abroad*, *Economic Growth of France and Britain, 1851-1950*, and *The International Corporation*.

A former research economist for the Federal Reserve Bank of New York and Bank for International Settlements, Kindleberger has served as a consultant to the Treasury Department, Department of State, and President's Advisory Committee on International Monetary Arrangements.

He was appointed professor of economics at MIT in 1948 and served as Chairman of Faculty from 1965 to 1967. Prior to joining MIT, he was chief of Division of German and Austrian Economic Affairs, Department of State.

Having received his Ph.D. from Columbia University, Kindleberger was awarded an honorary doctorate from the University of Paris in 1966.



HAPPY BIRTHDAY, ADAM!

It wasn't really Adam Smith's birthday, but the economics department called it a birthday party and honored the Scottish economist with punch and donuts anyway. Actually, the 200th anniversary of the publication of Smith's *Wealth of Nations* called for a student-faculty get-together to review the book and its impact.

Larry T. Wimmer, associate professor of economics, presented a bicentennial tribute to Smith and discussed his book's profound and lasting influence. "A partial ex-

planation may be that it was written in English, in Great Britain, at the dawn of the Industrial Revolution," said Wimmer. "The world was ready for the *Wealth of Nations*. Written 100 years earlier or in some other language, it may have been viewed as an insightful relic of our ancestral past.

"With some exaggeration, it might be said that the *Wealth of Nations* contains 50 pages of analytical economics and 850 pages of examples and illustrations as empirical tests of his

relatively simple theoretical model," added Wimmer.

Smith drew examples covering the years 1350 to 1750, taken from such exotic locations as Calcutta, Acapulco, Sicily, the Yucatan, Buenos Aires, the East Indies, Siberia, and Peking.

Even the index shows the nature of the man and his times: beggar: "depends upon benevolence, once synonymous with scholar"; cabbages: "are 1/2 the price they were 40 years ago"; gardening: "not a profitable employment"; Latin: "a useless smattering sometimes taught in Scottish parishes"; and men of letters: "improsperous race."

Smith's two central themes were also stressed by Wimmer. (1) The error in the prevailing mercantilist notion that economic activities among individuals and nations is a "zero sum game," meaning that wealth can only increase at the expense of another, and thus any act transferring money out of the homeland is bad and should be discouraged (imports, capital flows abroad, etc.) and actions transferring money into the country are good and should be encouraged (primarily exports) by special privileges, favored tax treatment, bounties, etc. (2) The insistence that a system of natural liberty, allowing each to seek his own interest, will not lead to chaos. Instead it will expand production and wealth, establish order, and reduce abuses associated with special privilege.

Ironically enough, Smith spent many years as Commissioner of Customs in Edinburgh, supervising the enforcement and collection of tariffs. A week before his death in 1790, he ordered 16 volumes of unfinished manuscripts destroyed.

A Winning Way with Words

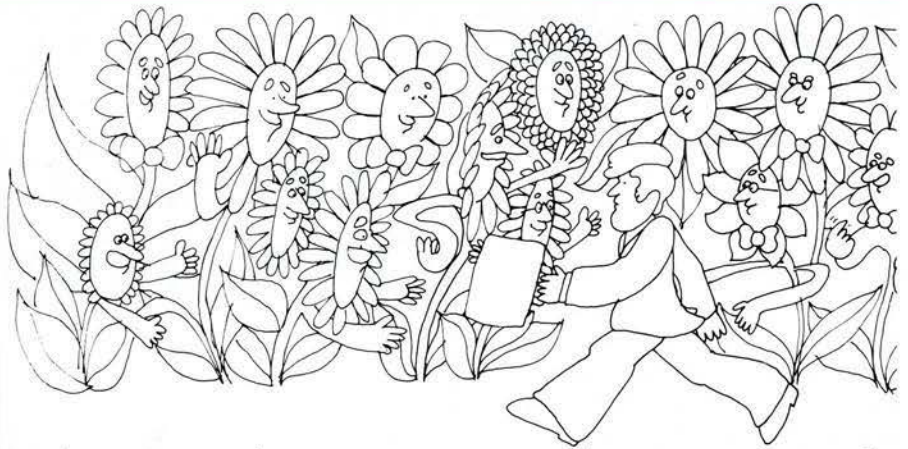
No longer is business alone in facing the barrel of a ready-to-blast shotgun — the subject of ethics. With vocal public concern on regulations, appropriations, and appointments, government at all levels is caught up in the issue of morality.

Susan Wakefield, a 1976 Master of Public Administration graduate now appointed a Utah State House Fellow, believes that "ultimately the answer for ethical behavior lies not in external controls but in internal ones which must be inculcated by the education process." Miss Wakefield won the top national student essay award of the American Society for Public Administration.

"Development of the attitudes and qualities of character incident to individual responsibility cannot be left to chance," wrote Miss Wakefield. "In order for individual values to be a viable force for an ethical public service, rigorous efforts must be made to build and strengthen internal commitments to moral government. Only then can individual responsibility serve as the first line of defense against unethical behavior."

Miss Wakefield will spend a year in the State House Fellows Program working in the offices of major state agencies. She will participate in decision-making sessions with legislative and judicial officers and executives from business and local interest groups.

The winning essay, "Ethics and the Public Service: A Case for Individual Responsibility," will be published in an upcoming issue of the *Public Administration Review*.



Plotting the Primrose (Career) Path

Deciding between a career in corporate portfolio management or new product marketing or personnel can lead to a lot of introspection and, perhaps, varying degrees of frustration.

For second-year MBA students the realities of career objectives, resumes, job interviews, and follow-up letters are immediate.

Gene W. Dalton, professor of organizational behavior, is teaching a new graduate class on career planning and development. The course involves students examining their own backgrounds, likes and dislikes, influential relationships, strengths and weaknesses, and individual expecta-

tions. The "how to" aspects of job hunting, interviewing techniques, and resume writing are studied. Students also participate in role-playing situations.

Dalton, the author of *Orientation and Conflict in Careers* and *The Distribution of Authority in Organizations*, is stressing to students that they should become familiar with the careers of leading individuals in various management and business fields as well as interview on-the-job professionals. MBA candidates will also take vocational interest and personality tests and read current literature on career stages and human development.

KUDOS TO ACCOUNTANTS

Two BYU students were among 22 chosen nationwide to receive scholarship grants from the National Society of Public Accountants.

Randall H. Walker of Henderson, Nev., and Jerald L. Martin of San Jose, Ca., were selected to receive the awards from among 814 applicants.

According to Horace J. Landry,

chairman of the National Society of Public Accountants Scholarship Foundation, "It is an honor for the NSPA Scholarship Foundation to have students of this caliber and overall abilities as recipients of the scholarship grants."

Both students received \$500 and were selected according to scholarship, letters of recommendation, and career potential. ■

"We are so caught up by the media, . . . by the excitement of the news, and by the issue-attention cycle that each moment we are stampeded into a different problem. It becomes harder for us to really understand what are the underlying structures and currents which shape a country and which shape a society." Daniel Bell is an ardent spokesman for reestablishment of culture and religion in America to link our past and present and provide direction for the future. The author of *Work and Its Discontents*, *The End of Ideology*, and, most recently, *The Cultural Contradictions of Capitalism*, Dr. Bell has served on the editorial board of *Fortune* and is currently a professor of sociology at Harvard. He visited BYU recently, talking to students and faculty members.

**. . . on a country
"created by active will"**

A nation or a people is shaped in the end by nature, religion, and history. Mountains or plains or seas influence the variety of national character. Religion provides an anchorage even when people are uprooted. History, bound by the principal of inheritance, provides a sense of distinction and continuity. In the United States, it was essentially nature and religion which intertwined to form the character of this country. This was the first new nation created by active will and brought together in those terms. But, lacking history, there were these other elements — nature and religion. It was an awesome expanse of land with an extraordinary variety of fertility. Equally, at the start, there was a covenant — explicit with the

Social Critic Daniel Bell



Puritans, implicit in the deism of Jefferson — that through God's providential design a new pattern would be unfolded on this continent, something which had not been seen before in the history of the world.

**. . . on a nation becoming a
national society**

The point is that about 30 years ago, we became for the first time a national society. We'd always been a nation. We became a national society because of two technological revolutions — the revolution of transportation which allowed us to go from coast to coast in jet planes in five to six

hours (as against trains which had to take two to three days before) and, of course, the revolution of communications. Television puts us on real time throughout the whole country; 144 million telephones can reach every other phone in the country through a dial system; and even a national newspaper, the *Wall Street Journal*, comes out on the same day coast to coast through satellite communication. We've become a national society, but one of the things we've failed to do is to match the scale on which national activities function.

Perhaps the best way of seeing

what's at stake here is this: from about 1910 to 1930 we became for the first time a national economy, insofar as we created national markets and national corporations. We didn't have the institutions to manage a national economy. If you look back now with some historical perspective at the New Deal of Franklin Delano Roosevelt, it wasn't what people thought it was in their rather sterile ideological debates at the time: creeping socialism, fading capitalism. It was neither of those things. It was an effort, fumbling in its way, to create institutions to match the scale of operations: to organize a Securities Exchange Commission to regulate financial markets, a National Labor Relations Board for labor bargaining, and various other institutions to match that scale. As a national society we failed, and failed badly, to match those things. And one of the results is that the delivery of services, upon which any society depends, simply aren't there, whether it be the delivery of mail or the collecting of garbage or the providing of law and order and security. The whole administrative system of the society, if you will excuse the colloquialism, is out of whack. It makes no sense.

... on "engineering" cultural experiences

One can try to reorganize political institutions, but one does not engineer a culture. One does not engineer a belief. These come out of shared experiences or out of spiritual crises. Therefore, you have, for the moment, a shaky balance between a society trying to better manage its economy, seeking a better sense of justice in its polity, and its growing uneasiness about what is going on in the underlying elements of its culture.

... on innovations' dependency on knowledge

There's one other dimension of the post-industrial society which gives it an even more radical thrust: innovation increasingly depends upon theoretical knowledge. What you have here is something radically new. Just as capital and labor have been the major resources of an industrial society, so information and knowledge are the main resources of the post-industrial society. As you have a labor theory of value which perhaps can explain exchange of industrial products, you have in a post-industrial society a *knowledge*

One can try to reorganize political institutions, but one does not engineer a culture. One does not engineer a belief. These come out of shared experiences or out of spiritual crises . . .

theory of value. This is because what is created comes essentially from knowledge, and knowledge is radically different in one other way: it's cooperative, it's coordinated. It comes in and through people working together in research and through the sharing of knowledge in this fundamental way. So, in that sense, we are on the threshold of a huge transformation in the very nature of the whole world society at a time when the rest of the world is struggling to organize itself politically and even to come on "economic hill."

... on people vs. nature; people vs. people

We have become an increasingly service-oriented society.

Today 65 percent of every 100 persons in the United States are engaged in services. By 1980, it will be 70 of every 100. Most countries are still preindustrial. Most Latin American, African, and Asian nations are primarily engaged in extractive industries: mining, fishing, timber, etc. These are games against nature in that fundamental sense. Western Europe, the United States, Japan, and Russia are industrial countries, using energy and machinery, playing games against fabricated nature. In an industrial society, you have services which are auxiliary to industry: transportation, utilities, banking and finance, etc. The most important cosmological fact about a post-industrial society is that, in the daily experience of work which shapes the character of people, nature is excluded — people no longer work against nature. Fewer and fewer people work against things. (Less than 15 percent of the auto workers even work on the assembly line). One works with and sometimes against one another — student-teacher, doctor-patient, bureaucrat-client, etc.

... on character structure

If one contrasts great nations against weak nations, it is that unifying principal, either a moral, religious, or historical destiny, which is unified through the character structure of the people. The protestant ethic is a character structure which unified a mode of work, a sanctification of work, a calling. To some extent I simply make this as a sociological observation: the strength of the Mormon Church is that it still integrates a character structure with a belief system. But throughout most of American society there is no such integration. ■

THE PARALYSIS OF PESSIMISM

by Gene W. Dalton

One of the paradoxes of modern history is that the United States, after producing and living under an economic and political system which has led the world for a century of unprecedented progress, has arrived at a point of resigned pessimism and despair about that system.

Under this system, the United States led a revolution in agriculture and the production of food that has permanently transformed the world. Through the efficient application of modern technology — the cotton gin, the grain harvester, improved seeds, etc. — the United States has moved from a position where 90 percent of its productive manpower was required to feed itself to the point where less than 6 percent not only feed the nation but export vast quantities of food. It then moved us through an era where, through the use of automated energy (electrical energy, automated and computerized controls, etc.) only 23 percent of our work force is required to manufacture the vast array of goods we use and export.

In an incredibly short time,

judged by historical standards, our society has progressed from an agricultural society to an industrial society to what our economists and sociologists have come to breathlessly call the post-industrial society. The largest part of our work force has been freed from the tasks of producing food or goods to performing services and generating and processing new knowledge and information. Under the system we have led a revolution in communication and information transmittal beginning with the mass applications of the telegraph, telephone, radio, motion pictures, television, satellites, computers, microcircuits, and microfilming. Transportation has undergone a no less dramatic shift through the exploitation of the internal combustion engine in the automobile and the jet turbine engine in the airplane. In the process, the nation has moved to a position where annual income per person has risen to an average of over \$3,500 while most of the world's population is struggling to increase average per person in-



comes above \$200. And in almost all of these changes, America's business organizations played the leading role.

The Pessimism

Yet, today we find many of America's most influential writers anticipating the decline and collapse of the system under which we have produced these achievements. Robert Heilbroner in his recent books, *The Human Prospect* and *Business Civilization in Decline*, describes the "inevitable" demise, already well advanced, of our business system. He foresees as its replacement a "tightly controlled society where the traditional pillars of capitalism — the legitimacy of private property and the operation of the market mechanism — have been amended beyond recognition." He describes what he views as the relentless forces of history by which "the driving force of capitalist entrepreneurs will have been replaced by the carefully supervised calculations of state planners." The latest book of Michael Harrington, whose book, *The Other America*, played a central role in arousing America to the "war on poverty," is entitled *Twilight of Capitalism* and is dedicated to "the future of an almost forgotten genius: the foe of every dogma, champion of human freedom and democratic socialist — Karl Marx." Norman McRae, deputy editor of *The Economist*, notes his concern that "Americans on the eve of 1976 are showing the same drift from dynamism as the British did at the end of their century in 1876." Schumpeter, who described the process by which the very successes of capitalism would seal its doom by undermining the institutions of church and family, is enjoying a renewed popularity.

The sense of resignation has also begun to show itself among businessmen. This spring I interviewed several chief executive officers of some of the largest corporations on the West Coast and found degrees of the same pessimism about the future of our business system. One board chairman and chief executive of a corporation listed in the "Fortune 500" talked at length about the increasing demands being placed on our institutions to provide security for individuals. After describing his expectations of governmental efforts to meet these demands and to force business to comply, he resignedly forecast something very similar to Heilbroner's "tightly controlled society" run by state planners and the demise of our business system.

Nor is the pessimism restricted to those forecasting the future of our economic system. Jacob Bronowski's famous television series and subsequent book *The Ascent of Man* concluded with the statement, "I am infinitely saddened to find myself surrounded in the West by a sense of terrible loss of nerve, a retreat from knowledge."

It is ironic that when most of the world is struggling to achieve the freedom from want already attained by the United States, when the world is faced by the need to find a new source of energy (the type of pursuit for which America is best equipped), we find ourselves troubled by a loss of faith in our institutions. The most disturbing thing to me, however, is the paralysis that seems to be associated with this pessimism. Nearly everyone talks about "forces of history" or a feeling of decline which he sees no way to influence or counteract.

Religious Beliefs and Business Systems

During my study and discussion about the future of business this last year, I became convinced that those of us associated with or interested in Brigham Young University have a role to play because of the view of history which our convictions give us. An analysis of the economic and political systems in this country indicates they were clearly shaped by the religious views and values of their creators. As Weber has pointed out, the "spirit of capitalism was present in New England before the capitalistic order."

The most notable feature of Adam Smith's *Wealth of Nations*, from the point of view of its departure from previous economic thought, is the doctrine of "natural liberty." Smith and most of his readers believed that "man's self-interest is God's providence."

Equally central was the value of individual responsibility. Religious convictions of that day taught that each individual had a "calling" to do the work of the world. Labor was not merely an economic means but a spiritual end. Often this sense of individual responsibility is described as the Protestant Ethic. But Irving Kristol has recently noted that what is described as the Protestant Ethic is very much present in Jewish religious thought and the behavior that flows from it. Other writers have commented on its rise in American Catholicism in recent decades.

This close connection between religious convictions and the shaping of our business and economic institutions is of more than historical interest to us, of course, because the connection is very likely to work both ways. If it is religious and ideological

values which shape our business and political institutions, the shape of those institutions will inevitably and fundamentally affect our freedoms. Business and political institutions which promote and reward individual choice and action may well be a requisite condition for the continued freedom to practice our religion and teach it to our children.

The Task

As we have discussed these issues among ourselves and with businessmen, we have concluded that BYU should be deeply involved in countering this sense of pessimism and resignation, as well as the conditions that foster it. We are the strongest of the religiously-based universities. If there is to be a focal point for those concerned about these issues — for businessmen and for academics — we are the ones with the largest stake in providing it.

It has also become increasingly clear to us that we cannot do much alone. We will need help from those of you reading this publication and from people you know. We will need help in identifying the critical issues that must be addressed. We need help in identifying innovative and successful management approaches which address some of the problems which so deeply concern both the critics and the leaders of business.

We are convinced that we would not be most effective in preserving the values important to all of us by trying to defend all present business practices. Since the establishment of our economic and political institutions, history has ushered in conditions unimagined by those who planted the seeds from which these conditions emerged. These developments have posed serious threats to the

values upon which the systems were built, not so much by the nature of the developments but by our responses to them.

Technological changes have had a dramatic and unexpected impact on our lives. The dislocations, the required specialization, and the sudden obsolescence of skills have made vast numbers of people feel anything but free. Automation and the creation of vast complex systems make it hard for individuals to understand and feel responsible for outcomes. The size and complexities of our organizations have made possible the integration of vast amounts of human and mechanized effort toward a single objective. But they have also threatened the values of individual freedom and responsibility. The multileveled hierarchies and apparent aristocracies of entrenched power and privilege have often left the individual with a sense of powerlessness and hopelessness.

Our system has also become an object of criticism in the thirst for social and economic justice that has preoccupied the world in the latter half of this century. Even though this thirst has repeatedly been betrayed, it remains. This is no simple drive for equality, although it often degenerates to that. Rather, the yearning seems to be for some shared basis on which difference in power, privilege, and property are distributed according to some morally meaningful criteria. In an earlier day, capitalism was described as the most just social order the world had ever witnessed because it replaced inherited distribution of power and property with a system more directly linked to personal merit. This perception is no longer as widely shared as it once was. The

world is ready to acknowledge that we have an efficient system; it asks if we have a just system. We must help answer that question, but only when we have enlarged the question to ask if we have individual justice, and individual freedom, and individual responsibility.

We intend to make Brigham Young University a center for the study of values, organization, and human freedom. In the College of Business/Graduate School of Management, we want to —

1. Articulate those values which form the core of our economic and political system;
2. Identify the way these values are embodied in (or violated by) practices and policies in organizational life today;
3. Identify and publicize practices which move us toward those fundamental values rather than away from them;
4. Influence intellectual and public thought as well as organizational practice and public policy.

We believe this can best be done through the publication of ideas and research in those magazines and books which reach business leaders, political leaders, and students throughout the country.

Our Request

What we propose will take time, effort, and money. We believe there are many individuals who would like to help. Will you let us know if you are concerned about these issues and are willing to work with us? Will you help us identify other individuals, organizations, or foundations who might be able and willing to support such an effort? We would like to hear from you. ■

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