

Spring '78: Used Notes
ad. 203

Good Text. for Ad. 203

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Acctg. & Mgmt. Action

M-H .73

Elementary, slightly dramatized

Elements of Planning.

Intro.

What is Planning?

A Plan is a design to attain some end.

Planning is the link between ~~imagination (theory)~~ and ~~imp application~~ ~~imagining~~ and applying, or theory and practice, or dreaming & doing, conceiving & implementing.

It is $\therefore$ both conceptual & practical; theoretical & applied. Has no patience w. "Theory v. Practice." Appreciates value of both; ~~views~~ ^{teams} them ~~as~~ together as complements, not rivals. Avoids "Laputan" extreme of rarefied superlunary theory, monastic ~~pedantry~~ scholasticism, the sewing side of theory. Equally avoids gubby practicality that can't see forest for the trees.

Planning has to use concepts & ideas because it looks ahead, deals w. things that aren't here yet, haven't happened yet. Denying (over) Has to be practical bcs. leads to action.

defined ideas as plans -- plans of action to solve problems that arise in a social context.

So planning is having ideas, or thinking.

Is no coincidence that IBM, most unambiguously successful modern firm, has "Think" slogan.
(Otherwise, slogans are bad news.) Might equally be "Plan."

Plng. lies betw. thy. & practice not just in level of abstraction, but in time sequence. Conceive, plan, execute, in that order.

Plng. gives direction. Doesn't tell you how to sail, but where to. E.g. Rommel, brilliant general, practical man of many achievements. One problem — on wrong side.

Plng. charts a course thru time. It looks ahead, not passively, but to guide choices today.

Plng. gives control, at least of yourself. You take charge of own priorities, rather than just responding to pressures & crises. Stop being Destiny's Tot; make Destiny your Tot.

Much 'Plng.' is phony.

- Munc. New Year's resolutions. Front plng.
- Inter meddling to "do something". Energy plng.; Great Society plng. "Programs". Plurs. need to (over)
- Restless groping w. power.
- Power plng. B.C. war plng.

understand how what system works, not do what it already
does, or impair it.

- 3 -

- Stalling. Gen. McClellan

Plan & Policy.

Policy is decision-rule designed to carry thru yr. plan. An enduring & transcendent rule, describes how to decide under ~~many~~ most (perhaps all) circumstances.

Like plan, is based on genl. principles that transcend circumstances.

Accompanies plan. Policy, too, looks ahead to the many indiv. decisions it is to control. Making policy demands that one imagine all possible circumstances that might arise, meet them in advance of the fact. Have to think in generalities & principles. Have to hit nail on head. Calls for hard & quality thinking.

Can delegate inferior fns. Plan & policy are the superior fns. for which CEO ~~is~~ guards & conserves his time.

- Stalling - Gen. McClellan. all preparation,
never take the plunge. The "Academic Disease."

Why Plan?

Bes. of Irreversibility (inter temporal dependency)
and

Indivisibility (e.g. rets., synergy)

Things last. Ecs. of longevity.

2 Things take time. Lead time & synergy, needed, for interdep. systems.
Simple e.g. of inter temporal:

Life Cycle costing

The moment you begin, K is committed for years, & more than K ... o.s.m. too.

Simple e.g. of indiv. + longevity (& irreversibility)

Cow path syndrome at Tyler - Indiana.

K wears out R.

Cap. is frozen and interest are vested, interdependently.

Supplies run out. Depln.

K wears out, needs replant.

E.g. of neglecting: Hi-way trust fund. for
new roads only.

Res. yr. K is tied up. Takes yrs. to
remove & reallocate.

Res. you need supplies.

- Per mkt. for variety, flexibility -- city locn.
Yellow Pages

- Per vertical intrn., if mkt. facts
 - Land for expn?
 - Raw mtl's.

Res. taxes

Res. of lead times

Ordering big eq.

Bldg. big power plants

Staffing, training, bldg. orgn., going concern

Bldg. demand, repu. good will, dependent customers

R & D new products, processes.

Res. of contracts, long term

Leases

Bonds

Pension funds

Bes. people change & die,
Many still cling to power after loss ability & drive.
Succession & evaluation needed.

Bes. ~~several~~ surprises & shocks come.

Reserves needed.

"Be Prepared"

Even K vs. fast recovery strategies.

Bes. needs grow & change

Delivery must be staged & timed.

Complements synch'd. Scheduling needed.

~~Obsolescence~~ ~~foresees~~

Capacities are lapsed or renewed

Bes. needs change, costs & circumstances change.

What is obvious today may be transitory

Develop insight & foresight, imagine the future & prepare.

Even ~~if~~ act optimally

To avoid traps.

Irreversible damage. Cumulative impact of small decisions. Cash crises ... insolvency. Compath syndrome.

Eleven Major Elements of Plan.

- A. Needs
 - B. Means
 - C. Ends
 - D. Designs
 - E. Economics
 - F. Synergy
 - G. Timing
 - H. Organizing
 - I. Reserves
 - J. Evaluation
 - K. Evolution.
- [Adaptations needed for orgns, projects, programs, or problems.]

Eleven

A. Needs.

I identify & define the problem, need, or market, and your niche or role in solving, meeting or serving it.

Measure the need, ("Sci. is measurement".)

Put ex. limits ~~How~~ on ~~the~~ alleged needs & eng. "requirements".
 proful, "standards", ~~Future~~. "good forestry", "adequate med. care", "decent housing", etc.

Measure demand at diff. price levels.

Elasticity .. re price, income, Time.

Your effect on demand

Future

after insight, foresight
after foresight, probability

Probability is ^{part of} yr. answer to risk & uncertainty.
No one expects you to be omniscient. No one is.
Waste no breath lamenting this; lose no honor
trying to hide it.

Rather, adapt to it. Use probabilities --
& match hi risks w. hi rollers.

(On supply side, adapt by hi flexibility)

Will the mkt. tolerate price flex. as levels.

B. Means.

Inventory resources or inputs.

1. Yr. How much time have you, - really.

2. Yr. propty (include yr. org's)

Use o.c. value. (Those who don't get raided)
(Or suffer local obsolescence, Look ahead)

3. Yr. human resources. Orgn. contraction

4. Yr. other K. Lenders. Internal. New equity.

Suppliers.

5. Supplies on tap. "Be Prepared"

a) By Open mkt. (Are you in right place?)

If need variety, ~~need~~ need a big apple locn. Utilities, too.
i.e. you buy access to most inputs by acquiring the right location.

b) By owning (or long lease or contract). Vert. intn. is major policy choice, expands K needs.

Important re o.c. ~~top~~ Look Ahead. You tie up land and K for decades. Both may rise in o.c. value.

C. Ends

Motives of prime movers; those who will adopt & act.
You

Clientele

Maximizing. Satisficing.

Short or long run

.. More exactly, at what time horizon.

Profit $\div$ what? Sales, Invested Cap.?

Or Volume max. Volume for power, ego, etc.

Or work min. The Quiet Life.

To play God? (By redistrib. wealth. Surprisingly common.)

Attitude to Risk.

Prefer or avoid?

Passive or active?

D. Designs

Consider alt. solutions to problem; or root strategies for org's niche in mkt. by characteristic methods. distinctive.

Give pros & cons of each.
Use for prelim. screening. Cut down no. of options.

Brainstorming, creative phase.
"Breaking mental blocks"
Have a dream.

Talk & listen. Have seminars, ask for criticism, get free consulting.

E. ~~Summary~~ Economics

Cf. B & C. Is it viable at all?

If so, how much? Det. opt. ~~to~~ mix -- dim. rets.

Det. opt. scale

Kind of scale. Vert. intrn. for supply security
vs. horiz. intrn. for true scale --- or hold on bottlenecks.

Cf. scale of choice v. K on tap. Prepare to
cut coat to fit cloth.

Whole gamut of Green Book

Cost of impln. -- overdrawn always by critics.

Externalities. Beware the EIR & lawsuit.

Adapt to resource constraints. Use techn.
approp. to your constraints.

Elements of play.

Play. is a little diff. for: An org.n. (going concern);
a project; a program; a problem.

~~The needs~~

A. Identify & define ^{problem.} need or market, and your role
in meeting ~~it~~ it. ~~After insight, foresight.~~

B. Measure the need or what demand, now & future.
(Insight, ~~and~~ foresight). Measure probability of future.

The means

B. J. Inventory resource inputs. (Use o.c. value.)

1. You

2. Clients

3. Gr. orgn. & workers

4. Gr. property

5. Potential new K

6. Suppliers. "Be prepared"

The ends

C. Define motives ^{objectives} of ~~these~~ actors. (Reconcile w. your own.) Define bottom line.
Risk-pref., (active & passive risk, as well as degree)

The designs

D. Consider alt. ^{root} strategies or solutions. ~~Your role in what.~~
Pro & Con. Reduce no. of options here before proceeding.
~~Costs & implementation~~

The systems

E. F. Model ^{systems} ~~these~~. Integrate parts into systems, w.
interactions, ^{ii) The ~~rest~~ plan in the grand env. system. Reactions of others.} externalities, extended consequences (w-in reasonable horizons)

The economics

F. Basic economics: Ben/cost analysis.
Opt. mix, scale, ^{kind of scale, make-or-buy!} cut to fit yr. clock. Model

The timing

G. Timing game.

The Org.

H. Orgn. ^{Opt. size} ~~to~~ approp. to strategy & methods. Implmtn.

Reserves

I. Antic. contingencies, surprises. Heavy loose. Reserve supplies.

Evaluation

J. Feedback, learning as you go, correcting, honing.

Evolution

K. Regroup, evolve. Life reproduces, doesn't just grow.

Adm. 203, Jan. 23, 1978

Models of Good Plan.

I. Elements of bad public plan -- minimal case study,
administering public lands.

II. Good Plans. A 2d cut.

Some elements & aspects.

a. Max. synergy, min. "line losses" & sappers.

b. See org. as single unit

Rise above functional origins.

(Hard to do, a direct. of scale.)

c. Define objectives

d. Define distinctiveness of org.

Methods, skills, resources, products, inventions.

Solve the identity crisis.

e. Coordinate functional specialists

- w/o stifling & overcontrolling, a direct. of scale.

Balance central control & indiv. spontaneity.

f. Find role for top mgmt, fill it.

Finance, lobbying, p.r. & advertising ---
grab the thing of ess. of scale, decentralize the others.

g. Growth -- & shrinkage, ~~sales~~ sell-offs.

h. Capital outlays, location & size & time
~~tell the wheels~~

~~to begin~~

~~how long to last~~

When (to explore, to lease, to drill, to begin
pumping, how fast, when to quit, why recur.)

Where

How much

How durable

What

CEO is the banker, more than anything.

i. Target rates of returns

j. Degrees of risk

k. ~~At~~ Exploit; market power, all in concert.

l. Evaluate performance

m. Formulate

~~Organize~~ Implement

Organize

Interpret (control & evaluate)

Reformulate.

n. Keep with it.

Keep produ. people mkt. oriented

o. Provide orderly succession

p. Recruit new blood

Examples

1. Ford When successful
Note, many parts of success.
2. GM
3. Show how to find r. of r.

Feb. 6, Adm. 203, (dear.

3. Alt. Objectives

1. ~~Elements of play.~~ Complete list.

2. ~~Correct math., re T.M.~~

3. Defs & defining objectives.

Profitability

Growth

Survival .. long term profitability

Satisficing

Max PV (putting risk in i , i.e. min. long term risk.)

~~After~~ ~~the~~

Need for identity

Ad. 203
Apr. 26, '78

1. Recap. 11 elements of plan.
2. Good plans -- a 2d cut.
3. Alt. objectives
4. Errors to avoid
5. Mineral leasing errors -- public policy blunders.
6. Discuss McNichols Chaps. 1-5.

Ad. 203. Jan. 16, '78

pp. 1 & 2

Errors to avoid, p & p.

Negative, carping, critical approach

Is easier -- that's why we begin here.

Also, helps us begin to see kinds of problems p & p must overcome.

Public, as well as priv. orgs. will be included.

Public ones, bad plans, may not hurt execs., but the public.

1. Conspicuous Syndrome.

1. Obsolescence & inertia

Ford, many brilliant ideas, put together.

One sourced after 20 yrs. or so. The product.

Mynt. not structured so anyone cd. tell the man on top.

So he made some mistake twice, hurt a lot.

Resource base remained very rich, so survived. But big resource base was also basis of inertia. Credit base, etc.

2. Quitting.

Ford blew it 3 times, kept trying -- found the right modification.

Inspirational stories. Bruce & spider. Dick Whittington, etc.

I was hoping to offer Craig Morton as inspiration, but there was Earl Monall.

3. ~~Blind~~ Neglect demand analysis, or be guided by prejudices re demand. &

production.

a. Underest. price-elast. of demand. Frequent pattern.

Goes w. a personality trait, world is not affected by me.
Ford's early competitors.

P.U. firms, engineers w. "requirements" approach

Opponents of peak pricing, e.g. on B.C. Ferries.

b. Blind to changes in demand scheds.

Ford, 27

F.S. & Cong. Commrs. ~~was~~ that oversee it. Grow^{for} _{& sawtimber.}

Riife is usually to prodn. orientation. Consumer neglect is tendency of politics, & popul. & trade groups.

c. Overst. elast. of demand

Less common, I can't recall e.g.s.

4. Internal sapping, X-subsidy.

Absorb. freight is common. Ford avoided.

Soybean & rubber leaves got in, also, later.

5. No provide orderly succession of mgmt.
Ford & most family businesses.
Immortal corpus. avoid.

6. Growing large w/o decentralizg
Ford. No divs, only functional orgs., all focused on CEO.

7. Decentralizg w/o devoting much attn. to control & evaln.
so unit mngs. ~~are~~ outcome capt.
Early GM. Durant.
U. S. Govt?

8. Arrogance of Power. Manipulate people for their own good.
Best & Brightest syndrome. Many facets, I'm not sure I have essence.
Group think: desire to be on the team -- H H H support; VN war.
Screening & weeding out critics & dissenters
Wash. is usually in grip of tyranny of fads & fashions.
"Prestige & honor," euphemisms for ~~the~~ back-alley machs,
override judgment. Arthur Hailey novels

- ✓ Inbred leadership group losing touch w. reality by sealing
selves off.

(Same as B.C. Socialists.

" " Watergate)

9. Internalize profit. Licensing of capture K.

Unit that makes it shd. also spend it.

F.S., U.S. & B.C. (less so)

Gas taxes

Tax policy -- plow back profits whence come, can expense.

Drift of Carter energy policy, via Russ Long,
Housing cap. gains

10. K-int. & land-int. bias

Bes. they do not show in budget.

Bes. can generate & plow back K internally, short-circuit
central controls.

Bes. A-J effect, neg'd. indices.

This bias fosters obsolescence, too.

11. Functional fundamentalism.

Our fu. is more important.

Military, its branches.

F.S.; BPR

12. Empire-bldg.

Durant. Conglomerators. CWP, B.R.

Often means undermine good res., go after margins.

Water originating in S.L., rent ignored.

(Approp. doctrine)

Nat. oil policies, Canada & U.S.

MEP prorated on dry land

Subsid. expln.

Related to cap.-int. bias.

13. Utopian. Du Bos. Dreams of reason.

Technocracy. Scientists, planners in govt.

McNamara?

14. ~~Public~~ Lag of assoc. priv. capl. behind interstate K.
(streets, ditches, priv. & public utilities.)

Bad synch. & coordn.

15. Overlooking staging.

Comprehensive plan w/o staging

E.g. Marshall Plan.

16. Not covering K. Can't meet payroll
Durant.

17. Scale wrong, unbridled, untempered.
Russ. farming; dams.

18. Moynihan on plans

S.P. - never sell.

Irvine -- 7% growth.

Regional dev't

19. Partial funding

U.S. Congr.

20. Wrong criteria as performance standard.

Min. admin. costs, Ak. leasing.

Max. profit margin, or 7% profit on sales.

21. Losing initiative, losing control of priorities.

E.g., city p.w. dept. that just responds to developer demands.
Similar annexation policies.

E.g., "nomination" system re leasing Ak. oil & gas lands.

T. J. McNichols.

Exec. Policy & Strategic Plan (re business orgns.)

Points to discuss. Ad. 203.

Chap. 1 ✓ Nature of Policy Formulations.

✓ Concurs ~~of~~ formulating purpose of bus. orgns.

- permeates orgn., rules all mgt.

- elite fr., CEO, genl. mgrs.

✓ - creative, not routine (i.e. more than max. profit.)

E.g. selecting risks

Meeting payroll

Make decision rules for others

Evaluate decisions

" implementation

Structuring the orgn.

Info. system

(Role: look at genl. mgrs., what they have done, rather than view from the inside.)

But isn't policy.

{ ✓ Financing. This "functional" ~~and~~ specialty is always role of top mgmt., bca. of size bias -- i.e. GM borrows, not Buick. Banks name genl. mgrs. Mr. Place

✓ - Location. Buy's, hold's, sell's v.e.

✓ - Make or buy

- External affairs

No. McN. rejects

~~Orgn.~~ -- specialize of tasks, K. (But indivs. also specialize, linked via inter.) Weber, Gulick, Taylor.
Blue collar - Taylor.
White - - Weber & Gulick.

✓ Tools of decision: ~~Info~~ Getting & Interpreting Data

Info systems

"Math. concepts"

Cap. thry.

LP

Appl. cost princ.

Appl. anal. re input combos, ~~no~~ princ.

Combine all in RIMS

O.R.

Behavioral sci.

✓ (Concept, Synergy. Look for it inside orgn; also outside. Ecs. of scale when you find more in than out.

~~Project for common thread: define ecs. & discuss of scale.~~

RIMS -- ~~plng.~~ for scale & growth.

✓ p. 4 An ~~org.~~ orgn. of specialists has trouble creating from them a top planner & policy maker (p & p). Rise of scale.

Small firm, everyone nearer top

Man at top must see orgn. as single unit. Must remove sappers; create

synergy. CEO words. ful. specialists; ~~or~~ makes whole > sum,

(Integrate elements of org. synergy, based on synergy)

p. 4 Functional fundamentalism hinders transition to CEO.

✓ Prodn. (Chrysler), mktg., fin., engg., science, pilots, r.r. men. (PennC.)
As some import outsiders.

✓ (Breake was an accident) Turned Ford around.

✓ Outsider specializes in unifying, integrating, maximizing synergy, determining scale, ~~the~~ etc.

✓ (Tends to be financier, which is functional -- the function most likely to take over.)

P & p compete for time w. opf; may get too little, drift ^{strategic} ~~policy~~ sets in.

Obj: find tools & procedures for CEO to use on nonprogrammed, complex decisions.

Chap. 2

Developing a Strategic Design

Policy, ^{result of} Institutionalizing strategic decisions

Sequence for strategy:

cf. over

- | | |
|---|--|
| F | 1. Formulate. Root strategy |
| I | 2. Implement. Op ₁ " |
| O | 3. Organize. |
| I | 4. Control; evaluation. <u>Interpret</u> control data. |
| R | 5. Reformulate, begin again |

These are a linked system

apply elements in sequence: staging.

E.g. of Fo Mo Co. When successful

1. Keep trying. Ford blew it 3 times. Followed tradition of mechanics & rail & luxury mkt.
2. Publicity & financing. Rail publicity ^{helped} him get refinanced. "Vicarious mkt" for bankers
3. Mass mkt., untapped. Cheap, uniform, rugged, simple,
4. Mass prodn.
Interchangeable parts
Assy line.

Root strategy
Op₁ "

Anderson model

1. Perceive & define problems
2. Alternatives
3. Adoption
4. Implementation
5. Evaluation

E
I
O
I
R



Op. strategy

5. Franchise dealerships. (James Couzens)
7,000 dealers

6. Spread bank accts. around on condition that
banks finance Ford dealers.

7. ~~Exploited~~ Exploited monopsony power

8. Charged freight to customers.
No x-subsidy. F.O.B. pricing.

9. Cut freight cost by dispensing w. plants.

10. Hi. min. wage (1914)
Selected cream of labor force.

✓ Orgn. & control strategy

One standard product allowed centralized, authoritarian
structure, simple pyramid. No divns. only fns.

Became prodn.-oriented, stuck too long w. same
mkt. idea, as times changed.

Finally forced to shift, lost ground
Model A required it, but they repeated error, kept
Model A too long.
Lost dealers, workers, buyers ea. time they shut down.

Reformulation

1945, E.R. Bledsoe, acctnt. from GM.

Control procedures

Fuel. systems. (profit centers, deconsolidating acct.)

i.e. get data; & process it, org. it to be useful.

Sappus had grown: rubber plantn. in Brazil; soybean
plant in Deaton. The old man's hobbies.

Early success builds up large resource base. This
allows for sapping, errors. 1931-45, drift strategy

Analysts look backwards and assume past success
means ~~future~~ present wisdom.

Accumulated wealth attracts able people, more
wealth, allies, praise & confidence, etc. Bankers get
behind you.

Chap. 3

Strategic Play. at GM

(Succession of leadership, important: for.)

G.M. began as hold'g co. had divisions from start.
Vert. int. Buick, ~~Olds~~ then Olds & Stewart body, Cad.
Oakland, 6 others, 3 truck cos., parts & accessories.

✓ J.P. Morgan supported Durant, made possible. Then,
Durant acquired by swapping GM stock for acquiree stock,
so GM held the stock.

(Thus improv'g. P/E, & by int. power.)

✓ Durant root strategy was volume & vert. int.

no early warning system.
Inadequate cash reserve; Cash flow crisis, 1910.

Bankers took over, 5 yrs.

Came back w. aid of DuPonts.

Dealer networks.

Supplier .. grew.

1917, converted h.c. to an op'g co. w. divisions.

But co. remained much the same -- i.e., decentralize w/o control.

1920. 2d cash crisis. Same as 1910, Durant
didn't learn (same as Ford, 1931 re V8)

Dir. mgs. overrode weak attempts to curb their spending. Cash crisis. Durant out. No "cash flow budgeting". Solvency lost. (Nations have same problem, inflate)

✓ DuPont reentry, then Sloan in. Org. Study, 1920, his master report, ~~the~~ Durant had not acted on. 1923, Sloan in, implemented.

(Durant was an empire-builder, a ~~con~~ like conglomerate whiz kids recently. Grabbed things -- Sloan made them work.)

✓ Sloan strategy

Root strategy

1. Full line of cars, aimed at diff. mkt.

2. Priced at top of bracket (bes. of rising incomes)

The "mass-class" mkt. concept.

Differentiate upwards. (but also was below the next class up of compet. i.e., hit the ^{levels} ~~areas~~ between prices of others.)

3. Vert. intra -- ahead of Ford in this, remained so.

(ask for defn. & social implications)

4. Model change, regular improvement.

Op's strategy

Op's strat.

Synergy

5. Apply mass produ. to dual products:

Cher. parts in Pontiac cars. Thus higher price cars benefited from volume of lower ones. "Prodn. synergy."

6. Styling

7. GMAC (from 1919)

8. Org. & control strategies -- Moran's biggest contribu.
Basic principles of decentralized mgmt. -- much copied,
(allowed ex. of scale, which are always there, ~~also~~
while holding off direct. Synergy ~~is~~ in spite of sapping.)

- Decentralize authority w/o giving away the store.
By div'g performance standards to evaluate. Control system.
Uniform standard of results ... & the right one, return on K.
Conserve K esply.

(K is the resource they get from center. They hire
own labor, buy intels, etc. (but use central control for Acct.))

(Banker's approach. It works for them, thus
control vast assets indirectly)

✓ (Applied ex. principles. = mgmt principle re K.
Defined return on K right. Etc. -- stress a few. Illustration
of applied rationality.)

✓ (Made is the resid. to max? In s.t. maybe,
e.g. one 4 mo. cycle; but wd. have more K to pump in
if return was hi.)

✓ (Flexibility. Centralized some fns. part of time.
Left room for judgement. Partial vert. intn.)

- a. Two transcendent principles
 - i) CEO of ea. unit, unlimited resp.
Complete orgn. in every neq. function.
 - ii) Central orgn. has "certain" neq. fns.
 - To define boundaries of fns. of subunits
 - To coord. them w. ea. other
 - To " " " center (e.g. refuse.)

~~the~~ ~~the~~ "Exec. fns." centralized in pres. (i.e. a
clear def. of authority, clear divn. of fn. People not getting in
ea. other's way.)

- Limit no. of people reporting to Pres., free him
from divisions that less import. execs. can handle. Delegate
inferior fns. -- but don't call them that.
- All other exec. branches are repd. in an
advisory way in ea. "exec. branch." - so ea. branch
divs. along lines "constructive to the corps. as a whole."

- b. Expanded func. & acctg. units.

- c. Committee structure, ^{2 kinds Comm. Corp. & Individual.} (i.e. put Bd. of Directors to work)
Fnc. & Exec. Comm. (Trig & Yang. X Comm.
proposes, Fnc. Comm. disposes.)

(A place for exuberant creativity; another one for review & oversight.)

X Comm. recommended appropos; Free Comm. passed on them.

X Comm. supervised ops. Ea. opg. divn. repd. on it.

Had ~~other~~ interdivisional committees, too. Purpose of comms. to coord. parts, while retaining ~~central control~~ decentralized control.

- General Purchasing Comm. (monopsony)

- Instl. Advertisg ..

- Genl. Technical Comm.

- .. Sales ..

Evaluation
divns.

- Operations Comm. to appraise performance of

These "coordg influences" worked. Basis for GM success.

d. Control of K appropos.

An Appropos. Comm. under X Comm. & Free Comm. screened requests. All given uniform treatment.

Approp. Comm. later dropped but procedure & concept remain.
(Consistency, uniformity)

e. Cash control. Pooled & mobilized cash from all regions & divs. Were their own banks.

f. Inventory control

Budgeting

Ea. Div. had to ~~not~~ make 4 mo. sales forecast. They got only enough \$ for mtlbs. to meet forecast.

They do this monthly. i.e., ea. mo. look 4 mos. ahead.

Central Mgmt. controlled output level, thus. (Not just to conserve K, but also maintain price.)

g. Return on inv. K as basis of evaluation.

Each side, "last neg. key to decentraliz. w. coord. control."

Having the means to review & judge effectiveness, cd. safely leave opns. to ~~man~~ men in charge of them.

Objective: "highest ave. rate of return on inv. K over a long pd." (This cd. be further refined & specified)

✓✓✓ Donaldson Brown, who came from DuPont where he had been treas., stressed that r.o.f.r. was for both profit mgr. and turnover of inv. K.

A simple product (needs further refining).

Central office required data on various accts. which
comprised margin & turnover; put together in central
office; cfd. w. standards of performance.
Used as basis of corrective action.

Evaluated returns on "standard-volume concept" —
(i.e., corrected raw data for seasonal & start-up variations, etc.)

Comments on McN, Ch. 5, Objective & Root Strategy

1. E.g. firm needs an identity, a style, distinctive character & role, a "root strategy" or niche to fill.

Means to: "The system itself gives direction."

A super policy, makes policy easy: one enduring decision rule.

P & G. From selling soap to supplying supermarkets.

- a) Synergy in advtg.
- b) Bulk purchase

Allon

- a) Indep. contraction. - Tax avoidance.
- b) Home used for storage space
- c) Collections, new app. for sales
- d) Use underemployed women.

All cases, strategy involves slipping into system in a clever way, gaining advantage by:

- avoiding tax
- using underutilized resources.

2. What ult. objective, beyond strategy, is firm out to achieve.

a. "Profitability".

Because words end in -ity. People who use them don't define base carefully.

McN. mean profit / inv. K , but never defines base.

Inv. K , (our K ?), has to be revalued constantly, based on o.c.

O.C. is:

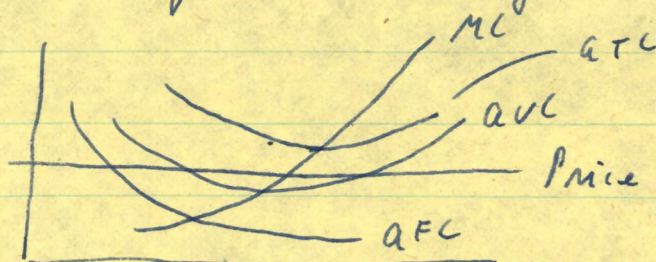
Recoverable K

Internal valuation. Unrecoverable K .
may still be scarce & valuable.

Internal valuation boils down to
Max DCF imputed to fixed K .

E.g. - forest land
- any fixed plant.

Reminder from cost analysis



Write down AFC -- unless alt.

Profitability is long-sighted - forego "opportunistic" s.o. gain for higher future.

This is just an invt.

Reconciles profitability & survival.

c. Survival

1. Conceal profits, he says implicitly, evade sanctions.

- ecology
- govt. reg. (e.g. price control)
- anti-trust
- tax.
- (he might have added Δ wages)

i.e. bury profits in satisficing, x-subsidy, the quiet life, promotional inv; random growth.

Here is a reason growth looks good.
Half your K inv, establishing new position, is expendable.

d. Growth

Permissive doctrine.

McN. values it highly. Get big or get out.

Mean size of firm is Δg , bad times for small bus. Still, he overdoes it.

- "Growth follows from profit." Assumes internal financing. Not very.

- Assumes incl. bias will continue. Scale, we will

see next week, is largely product of instl. bias.

Tax pol.; govt. contracting; govt. reg.; resource approp. & appren. These may change.

Also, past merges highly cyclical.

- Equates growth w. vitality. But replant. is equally good. Human body metabolizes for 60 yrs. after stops growg. (Only organism that doesn't stop growing is Cancer.)

- Size proteins vs. small mishaps, but natural selection weakens, lets weaknesses accumulate. Life, Look, Collier, Nat. E. Post, Chi. B. News, etc.

Concln: Growth not always compatible w. profit. Growth must give way!

c. Survival

Terminal lign. is thinkable. Conditioning a firm for merger, his exp. shows how his thinkg. fails to disting. legit. from spurious exp. -- not a social thinker.

Add, conversion of land to higher use.

Back to p. 3.

d. Satisficing.

Excess profits piddled away.

Simon does for mngy what Lindblom does for bureaucracy — legitimizes cobwebs, overletters, empire bldg. Anti-intellectual, anti-rational.

But the quiet life --- D.C., Title Co. --- is not the only way to dissipate.

Promotional inv.

Inc. tax a factor. Bus. luncheon, travel, stenos, all deductible,

Effect on family life — cons. of wives not deductible, except housing taxes. Girls Friday are (W.ayne Hays,)

e. Max. Wealth.

Same as max. profits over time. McN. fails to show identity, makes sound differences. Max DCF

Same as net product of invt -- net of int. cost.

Discounting is subtracting int.

He finally comes to this as master concept.

Max. wealth is same as max i (his k)

But you can borrow more at mkt., so if your i is high, borrow more. Then, max. wealth at i .

And use i as target rate, (hurdle or cut off rate.)

✓ So we're back to valuation:

$$PV = a \frac{1 - e^{-in}}{i} \quad \text{one cycle}$$

For all cycles, 2 approaches.

$$a) \quad PV = a \frac{1 - e^{-in}}{i} + Se^{-in}$$

Simple, workable.

Citrus vs. office.

*)

$$2,000 \cdot 7.0 + \frac{200,000}{2} = \frac{14,000}{2} + 100,000 = \frac{118,000}{2}$$

$$10,000 \cdot 7.0 + \frac{100,000}{2} = 70,000 + 50,000 = 120,000$$

Citrus more sensitive to i

b) Perpetual.

a/i 1/ annual cycles

$$a = PV \cdot \frac{i}{1 - e^{-in}} = \frac{FV}{e^{in} - 1} i$$

$$\frac{a}{i} = \frac{FV}{e^{in} - 1} \quad \text{periodic cycles.}$$

c) Growth factor.

$$PV = \frac{a}{i - g}$$

Dividends + growth. Show how to use growth factor, g . See R/MS.

$$A. \quad PV = \left[a \frac{1+g}{1+i} + \dots + a \left(\frac{1+g}{1+i} \right)^{\infty} \right] (1+i)^{-1}$$

$$= a \frac{1}{1-r} = a \frac{1}{1 - \frac{1+g}{1+i}} = a \frac{1}{\frac{1+i-1-g}{1+i}}$$

$$= a \frac{1+i}{i-g} (1+i)^{-1} \text{ ~~there~~ } = \frac{a}{i-g}$$

B. If annuity = n yrs.

$$PV = a \frac{1-r^n}{1-r} = a \frac{1 - \left(\frac{1+g}{1+i} \right)^n}{\frac{i-g}{1+i}} \approx a \frac{1 - (1+i-g)^{-n}}{i-g} (1+i)$$

(Same as A.)

McN. uses k for i . "The k factor".
Max PV or DCF.

Puts risk into k -- sloppy.

p. 80 In l.v., firms maintain const. cap. structure
 propos; ~~to~~ full expansion from earnings.
 (No - internal expansion changes propos.)

- Alaska data re oil indy & c. indy. structure

- BMS data on 4 sources & wealth: approp. approp.
 plowbacks, outside capl.

p. 81. ROI, (Return on Inv.) does not embody growth
 factor.

(No -- can easily enter it. E.g. Citrus vs.
 office, solve for i , just like bond mkt.)

(Beware such rigid ideas -- due to discomfort w. math.
 Insolvency v. bankruptcy)

p. 82 Varied k -values are normal & OK. (??)

If lines are comply., credit extra spillover to
 each.

Naive re ATC which are price-determined.
 Review this.

