

the company as an administrator and what is the truth about the individuals who head up the various important departments in the same regard?

If I should go out to evaluate the management of a company and try to put the results down on a balance sheet, when I was talking to each individual department head I should be thinking more in terms of what kind of an executive the man was than of the detail that we find here, such as, for instance, whether or not there is a research or methods unit. Whether there is a research unit is less important than whether the spirit of the organization is a research spirit. The sheet is just a little too impersonal. We have always talked about loans on the basis of character and capacity as well as the balance sheet, and here is a chance in developing a balance sheet of management to evaluate character and capacity in terms of managerial ability.

"Is there a definite policy for the maintenance of the skill and good-will of the workers?" Fine! But we must be much more definite. I went in a plant two weeks ago and got a few figures for maximum labor turnover. This company had been turning its entire working force over 100 per cent each month for a period of a year. They had a 1200 per cent turnover per annum, and some folks were wondering why they had not been more successful. That, or the conditions which caused it, is much more deeply rooted than an attempt to maintain the good-will of the workers. For one thing, that company probably holds the world's record for rate-cutting. I asked the general superintendent if they ever changed rates and got this reply: "Oh, yes, we are changing rates all the time. Whenever a man gets more than we think he should, we cut his rate." He told me that as though it would demonstrate to me how good he was. All these very fundamental things are the things you have to know. Of course, good-will will spring out of these fundamentals, and I assume that was implied. I am just trying to show you the things I feel you have to know in detail if you are going to establish any sort of a balance sheet of management.

"Is there a definite policy of sales promotion and advertising?" The answer will always be "Yes," because you can find some policy. What kind of policy is the question. How is the sales organization developed? What kind of relationships exist

between the sales managers, the divisional sales managers, if there are such, and the salesmen? Are sales being made through manufacturers' agents or through a sales force and why? We must have detailed consideration of whether or not the sales organization of the company is set up in such a way as to deal effectively with its competitors.

After you get these details you will have, I think, a lot of data from which to form a balance sheet. We all do it today entirely by guesswork. We say the layout and physical conditions of the plant are such; the personnel and sales relations are such. If we get a generally good impression, the line of credit is extended or continued. If we get a generally poor impression, something of the reverse is done.

It seems to me that until we get some method of evaluating the relative importance of all of these factors in the different types of industries—and they will vary in importance in the different types—we have to think of this thing less as a balance sheet of management than as a detailed consideration of the facts of management, which can only be set forth in relation to the condition of a given company as we find it at the time.

That does not mean that we should give any less consideration to a balance sheet, nor that it is any the less important. It is extremely important. If we think we are going to be able to find something ready made, easily read, similar to the familiar financial balance sheet, expressed in figures, we are going to be mistaken, and progress in the consideration of these matters, in which we are all so interested, will be retarded. Rather than in terms of a balance sheet, we ought to think in terms of the importance of these various elements in the granting of credit.

Houston P. Reader.* I have thought of a great many questions which are not on the sheet. The first one is: Why was it called a balance sheet? It seems to me a stimulating set of questions but not a balance sheet.

I am wondering also to what kinds of concerns and how it could be applied. How could you apply these questions, for example, to the small retail organization with a capital of \$10,000 or \$15,000?

You could not put the material in the form of

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a questionnaire and expect the credit man to either send or take it out to be filled in.

Each credit man in this audience has a different problem and I question whether it is possible to work out a form of inquiry which will be applicable to all of them. By what yardstick are you going to measure? Is the credit man supposed to have sufficient knowledge to own a business himself? If not, how can he pass intelligently upon the management of someone else's business?

The whole thing is an enlargement upon the capacity to conduct a business. The credit man who is going to pass judgment of this kind will have to be familiar with every kind of problem and plan continuously to visit the concerns in which he is interested.

Rapid change is another factor that has not been mentioned. You cannot apply the same rule of reasonableness in times like these as you could four years ago. If this sheet can stimulate questions in our own minds as we go about among our customers and teach us that we cannot get the other man's point of view by sitting at our desks it has real value.

A credit man told me a story a while back of one of his customers. The firm was obviously slipping and the credit man, after studying the matter at his desk, took a trip out to the plant. He knew nothing about the particular industry but he questioned one process. The proprietor explained the reason why the particular process was used, to which the credit man replied that it might be well to at least think about the other method. A year later he found his suggestion had been followed out. That was several years ago and the plant is now on the up grade. That was just a chance suggestion but how many credit men have the ability, the training or the opportunity to make such suggestions?

It seems to me, therefore, that many more questions are needed. And provided it is possible to get answers it will be pretty difficult to add up the positive and negative answers and say whether you have a plus or minus result and therefore whether or not the concern is a good risk.

I much appreciate the opportunity to participate in this session. A great deal of credit is due those who are responsible for it because it will certainly stimulate valuable thought on the part of all of us.

Sanford E. Thompson.¹ In the course of our work we have frequent occasion to visit industrial plants which we are not actually serving and to observe their conditions. We often see run-down equipment, a deterioration in management and old-fashioned methods. These companies may have been very successful thirty or forty years ago.

Sometimes the condition is so critical that the natural thing to do is to talk it over with the interested banker. His answer used to be that he could do nothing—that the firm was paying interest on its loans and had sufficient quick assets to cover them, and that was all the bank could ask. More recently the banks have begun to ask for production reports as well as balance sheets. The banker was more or less justified in thinking that he had no right to criticize when the firm was meeting its obligations to him, but the new tendency gives the situation a different aspect. He does not criticize, he merely asks for a statement of fact. The manufacturer cannot object to that. It is equally valuable to him in ascertaining where he stands to know these facts.

In attempting to establish fact instead of opinion as a basis for credit it seems to me that this discussion has instituted a new credit era.

My criticisms are somewhat along the line of Professor Lansburgh's, but they are incidental. This is a preliminary statement which of course needs dressing up, especially along the line of fact determination.

After the facts are determined they must be interpreted. I think it immensely important that we know how they are going to be interpreted. As I understand it the man who puts these questions is supposed to make the interpretations. But a man going to one plant may have entirely different ideas from the man going to another and therefore the results will not be at all comparable. Can we make them comparable by getting down to a figure basis, let us say a set of comparative ratios?

I think you will all remember the committee on waste elimination appointed by Herbert Hoover, then President of the American Engineering Council, in 1922. The plan was to examine the different industries, and selected plants in each. In other

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