

ness is dominated by one big man, that we have arrived in this country at an autocratic form of government in business. Perhaps we have arrived at more autocracy than we have at executive authority and responsibility. Most of our executives do not find themselves clothed with complete executive authority; they do not find themselves clothed with complete power to execute, primarily because there are no policies definitely determined and handed to them as the basis for their executive work. A President who regards his Board of Directors merely as a consulting body or a nominal reference body, very naturally is more concerned with policy making than he is with executive work. There are a few corporations where there is a relatively great differentiation between policy making and the execution of policies. You will all of you have in mind the United States Steel Corporation, with its finance committee that makes the policies of the company, presided over by the Chairman of the Board, and with a President of the company to execute those policies. Of course, I do not mean to say that the President of a company should not suggest policies, but there is a vast difference between suggesting policies and actually making them. I do not want to belabor this point, but at the risk of being tedious, I want to make it perfectly clear, because it is the basis of most failures in budget control systems, this lack of differentiation between the policy making body and the executive body, the fact that the President of the company is so completely concerned with policy making and policy changing from hour to hour and from day to day, that he has little or no time to execute policies and therefore delegates their execution to subordinate officials of the company. I am no stickler for titles. I would perfectly agree with a system of organization where the President, with a committee or without a committee, was the policy making authority, and the senior Vice President was the chief executive; but I do suggest, as one fundamental in budget making, that we arrive at a separation of the executive from the policy making bodies in corporations, to the end that this budget, when adopted, may be an expression of policy and may be carried out by an executive who is committed to a permanent and continuing policy in his business until it is changed by the policy making board, committee, or chief.

My own practice, if it will be of any interest to you, is to recommend a policy making body; that is to say, if I find that the Board of Directors is too unwieldy or too indifferent or too far-spread territorially, or for

any other reason is unable or unwilling to assume the function of policy making, I then urge, respectfully and insistently and persistently, that an executive be recognized as the policy maker or that an executive committee be set up that will be at hand and continuously at work, and will take unto itself the function of setting up policies and amending policies so that there may be a distinct separation between policy making and execution.

In the third place, I would call your attention to the need for a positive line of authority. The President should delegate his executive powers to not over five or seven men; they, in turn, should each of them delegate their powers to a few men of the third grade; and they, in turn, should delegate their powers to men of the fourth grade, and so on, depending upon the size of the corporation. A definite line of authority is an essential in budget making. The condition exists in many corporations that the President assumes to deal directly with all classes and conditions of men. I have in mind the corporation that has grown up around one man's personality, where the President gives orders at one moment to the First Vice President, at the next moment to a cashier and at the next moment to a man who is handling the cartage in the yard. I am speaking for a line of authority as an essential in budget making; that is, I am attempting to say, as a challenge to your own thinking, that you cannot set up a budget, let us say, on selling expenses, unless you have some one directly and conclusively responsible for selling expenses. Now if the President is responsible for selling expenses and delegates the responsibility to twelve individuals—to an advertising manager, to a sales manager in the east, to a sales manager in the west, to a copy reader, to a proof setter, to a cashier, and so on, you have such a complete delegation of that President's authority with respect to selling expenses that you can never hope to get budget control on selling expenses. You must have a practicable line of authority.

Budget control does not imply any given kind of organization. Mr. Taylor, in his writings on the philosophy of management, laid great emphasis on functional authority, but budget success does not depend necessarily on functional organization lines. Personally that has always seemed to me to be the ideal line of authority, but I know efficient organizations where the line of authority is from the President to an eastern Vice President, from the President to a western Vice President, from the President to a Pacific Coast Vice

President; that is, territorial responsibility.

The next essential in successful budget control is information independent of the line of authority. If information is entirely controlled in the organization by those who are accountable, there is, indeed, no way to hold them accountable. The line presupposes the staff, and here is one of the greatest obstacles that is to be found in budget making—many business men have little or no use for staff organizations. For one reason, most businesses are dominated by one man who delegates his responsibility to such a large number that there is no line. Where there is a line, then the line often resists the introduction of a staff. By a staff is meant, of course, a group of skilled men so placed within the organization that they can report to the line of authority and to the executive all the information that is necessary in executive accountability. This does not refer merely to an independent general auditor, although that is a necessary feature if you are to have a successful budget installation. There is also necessity for an independent production engineer, an independent sales engineer, an independent personnel engineer, with the organization; an adequate consulting staff permanently located within the organization as a means of reporting to the line of authority.

I feel like using my entire hour on organization alone, because I have seen so many attempts made to establish sales quotas and expense controls of one kind and another, where the organization rendered accountability impossible; and the whole idea of a budget, to my mind, is a set of estimates as to future accounts that will reflect the policies of the company as a guide to those who have definite responsibilities in executing the policies. There can be no budget control, no policy continuously established, without a line of authority to assist the principal executive. There can be no accountability except in terms of units that are controllable, because it is idle to speak of a budget on the President alone; the budget must be in terms of units that can be controlled, and the chief executive of course is not controllable except in terms of his own resignation. Without a staff provided to accumulate necessary information, there is not a proper basis for accountability.

Granted an organization that can be held accountable, the next consideration is a system of accounting that will hold the organization accountable. As an accountant, I am interested in accounting, but I am interested in accounting only insofar as it enables executives to control. I am not interested in accounts

that merely enable the general auditor to account, and I need not emphasize that point in a group of management engineers. Special emphasis is placed upon that, because many "systems" of accounts have no relation whatever to the organization and to control. In fact, if you will refer to the standard treatises on accounting you will find *pro forma* balance sheets and *pro forma* profit and loss statements that are to be used for all classes of business. A proper balance sheet, a proper profit and loss statement, and of course any proper expense analysis in cost accounting must be in terms of specific organization. If you have a territorial organization, if you have a President and he is assisted by a Vice President in the east and a Vice President in the west, it follows, for budget uses, that there will be territorial balance sheets; there will be a balance sheet for the President, on the whole company, a balance sheet on the eastern property under the control of the eastern Vice President, and a balance sheet on the western property under the control of the western Vice President. There must be at least territorial profit and loss statements; the President's profit and loss statement, the eastern profit and loss statement and the western profit and loss statement. To that extent most accountants go, but in a functional organization, one gets into very considerable troubles in accountability. Let us assume that the type of organization is that the President is assisted by a Vice President in charge of sales, a Vice President in charge of production and a Vice President in charge of finance. Where that is the situation, it is seldom that one finds a balance sheet for the use of the Vice President in charge of sales, a differently arranged balance sheet for the use of the Vice President in charge of production, and still a differently classified balance sheet for the use of the Vice President in charge of finance. The kind found generally is a balance sheet for the use of the Vice President in charge of finance; the idea of arranging the assets and liabilities accounts so as to carry a story of accountability to the Vice President in charge of sales does not occur to either the textbook writers or accountants or instructors in accounting and still less to the professional practitioners at the present time. Someone has to challenge that situation, and I am foolishly enough to try to do it in this audience.

But admitting that it is unnecessary to have a balance sheet that reflects the specific responsibility of the Vice President in charge of production, there should and can be an expense classification that re-