

It is impossible in one evening's talk to describe fully the making of a flexible budget but I refer those who are interested to the BULLETIN OF THE TAYLOR SOCIETY of April, 1922, in which, under the title "A Technique for the Chief Executive," I give the only exposition of the flexible budget that so far as I know has ever been printed.

The Budget as a Medium of Executive Leadership

The greatest difficulty of leadership is to impart information without creating antagonism, which leads to an effort to find other ways of doing the thing rather than to understand the explanation.

Up to a certain age, which is about the time of finishing one's education, most people are more easily taught than afterwards. The time when the change takes places varies. Psychologists explain that it is natural to take pride in learning so long as one is frankly a pupil, and that it is equally natural that when the pursuit of knowledge is over one should resent being given too much information. It is interpreted to imply a lack of knowledge and is resented as depriving one of the privilege of working out the problem in one's own way.

The budget properly handled furnishes a means of combining instruction and inspiration of creative activity which is unique. To obtain the full benefit, responsibility and credit for effective work and economy should always be given to the person in a position to effect such economies. The job of the man higher up should be to help and support those responsible for effecting economies to exercise their own authority but not to make decisions for them.

It is here that the budget comes in. Suppose the cost of a department, whether it be in an office or factory, has unduly increased or the quality of its work is unsatisfactory. The conventional procedure is for the executive in charge to send for the department head and show him the faults of his department. The department head has probably passed the period when his pride is in learning, and however considerate the executive may be, the focusing of attention on faults will be regarded as criticism. If the department has been budgeted a different situation exists.

The mere existence of a budget, which it is the duty of the executive to enforce, relieves him of the personal equation. With the budget in hand, he may send for the department head. In place

of his pointing out the unsatisfactory results achieved and what could or should have been done to prevent them, they go over the budget together to see what can be done to bring about the desired results. This avoids the necessity for finding fault. The executive should remember that if a department head does not deserve this kind of treatment the best thing he can do is to fire him, and put in his time on a more competent man.

You may wonder why all this cannot be done without a budget. The budget, whether flexible or not, takes unto itself the onus of the situation and puts the executive more nearly on a level with the department head. It puts them in a position of having a common purpose. This is more stimulating to the department head than you can imagine unless you have recently been a department head and have had this experience. Also, the existence of the budget as a medium of expression of results achieved objectifies the conversation. There will be encouraging progress if the executive will avoid preaching and interest himself in developing the other man's ideas rather than in exploiting his own.

The situation should be developed through questions as to what it should cost under this or that condition to achieve certain maximum and minimum results. Here comes the point of the flexible budget. You show the department head how, with this information, he can work out his fixed and variable costs and measure his accomplishments, under the exact conditions which prevail, in terms of weeks or months at will. What is even more important, instead of telling him, you have caused him to analyze the situation and to find out for himself what can and should be done.

You may say it would be easier to do the work yourself, but I want to suggest that this kind of thing is the essence of leadership and that without this sort of patience and ability, one had best stay in the class of doers. There are three stages in the development of leadership. First, learning; second, doing; and third, leading. The trouble is that people in the second stage want the prestige of leadership without giving up the kick of doing.

In closing I want to illustrate the flexible feature of a budget and tell a story which will give you a better idea of how the making or revision of a budget may be used as an educational medium.

Costs as such do not serve the ends of man-

agement. They occur after the fact. What is needed is something that one may read as he runs. Suppose that you had to motor to Tarrytown within an hour (a distance of say thirty miles) on a road that you knew but with no land marks to indicate your progress. A watch would tell you if you got there in the hour but it would not help you to determine your progress while there was still time to affect it. If when the hour was up, you had not reached Tarrytown you would be in the same position as the executive who does not know that his costs are too high, until the job is done. But if you had a speedometer, the moment your speed slackened to less than thirty miles an hour, even though it were in the first mile, you would know you must make up this lost time if you were to get to Tarrytown in the hour. The flexible budget is to management what the speedometer is to the motorist.

There is no one thing which to my mind is so important or helpful in the carrying out of an undertaking as the necessity for predetermination. It forces you to look before you leap. It obviates finding yourself suspended in mid-air without having decided where to land. Predetermination is sometimes difficult and irksome but it is fundamental to all scientific procedure. You may ask how one is to determine things which are in their very nature dependent upon other determinations not yet made. I will tell you an experience which

will, I think, answer this question satisfactorily.

In making a budget for a concern which sent out a great deal of printed matter, the head of the Forwarding Department said it was impossible to make a budget for his department without knowing what he would be required to ship. Without telling him how to make his budget I asked him a number of questions which brought out the following facts:

1. The amount of money which had been budgeted for the printed matter.
2. The average weight of such literature per hundred dollars.
3. The average distance of the places to which the material was to be delivered.
4. The cost per ton for transportation over the average distance.
5. The average size of the paper wrapped packages, the average size of the box used, the number of average packages per ton, the number of average boxes per ton, the cost of paper, cord, and wrapping the average package and the cost of the box and packing the average box.

With these determinations, I do not have to tell you how he arrived at his budget. These budget items, as applied to the actual shipments made, came within \$1000 of the total cost of something over \$100,000, and the total cost was very considerably less than it had been the previous year for sending out a similar amount of material.

International Industrial Relations Association Congress Cambridge, England—June, 1928

THAT mass production is insecure for both labor and capital because of its dependence on wide markets, and that social research and scientific management under the joint auspices of labor and employers are needed to give stability to industry and to protect wage earners against those effects of mechanization which are detrimental, was pointed out by speakers from the United States, Great Britain, Germany and other countries at the Congress of the International Industrial Relations Association (for the study and improvement of satisfactory human relations and conditions in industry). The Association recently

completed a five days' discussion of the subject, "Fundamental Human Relationships in Industry," at Cambridge, England. The Congress was attended by personnel managers and welfare workers, employers, representatives of labor, factory inspectors and research workers from twenty countries and was addressed by many noted speakers.

The officers elected for the ensuing three years were President, C. H. van der Leyeuw, Partner, Messrs. de erven de wed. J. van Nelle, Holland; Vice-Presidents, Miss Mary van Kleck, Russell Sage Foundation, New York, Miss M. L. Flederius, Holland, and Erich Lubbe, Chairman of the Works Council (employees), Siemens, Ltd., Berlin; Treasurer, Charles E. Jacob, Managing Director, Messrs. W. and R. Jacob and Company, Ltd., of Dublin, Ireland.