

I think these two words will show you the possibilities for the future, and that is why this conference has been called. The Taylor Society, a well established organization possessing dignity and strength, asked me to what extent we credit men were interested in management as a basis for granting credit. When Dr. Person put that question I replied that we should be glad to sit down together and get whatever valuable suggestions the management group had to offer. This is a happy occasion because of the number of representative credit men who are here.

You may be interested to know, too, that in two of our association units, namely, Los Angeles and San Francisco, there have already been placed on file reports from seven hundred business men. They are calling this their Business Service work. A movement along the lines we are discussing today is taking shape in our own organization in the West and moving eastward.

The big thing we all must consider is whether our present instability can be remedied by individuals or the state. This is only another meeting, but hundreds of them accumulated will bring about the composite result of saving our Anglo-Saxon individualism and producing economic stability.

I am going to ask Dr. Person to sum up the meeting after the discussion is completed.

David E. Golieb.¹ Dr. Miller has distinguished between the ordinary credit checker and the credit man. The credit man has always been interested in management; has always realized that at best a balance sheet is but a summary of the financial condition at a certain date. The credit man, however, knows that working capital will be enhanced or reduced as the result of the conduct of management. Each phase of the problems of the management should be known and well considered by the credit analyst. Informal, but intensive studies, have been made by credit men who know what their customers' problems are and can interpret financial reports in the light of the set-up of management, such as is suggested by the work sheet or balance sheet of management which we are about to consider.

There is a growing recognition of the importance of studying the management. It is realized that for the most part business insolvencies are attri-

¹Treasurer, Einstein Wolf Co., New York, N. Y.

utable to unwise or improper management. Incompetence, inability to adapt the affairs of a business in time to meet changing and new conditions, and lack of character are factors. However, the credit man is interested in this subject from another and no less important angle. He is eager to cultivate and build accounts along sound lines. To make the most of his opportunities it is essential for the credit man to have an intelligent understanding as to the efficiency of the management. The form of management reports prepared by the Joint Committee of the Taylor Society and the National Association of Credit Men is richly suggestive to students of management. It is an excellent start. I hope that the work will be continued and that studies will be made in various trades and industries of types of concerns that operate under comparable conditions. As a result of such studies data and report forms can be developed which will serve as guides to the study of management.

It seems to me that the balance sheet of management not only supplements the balance sheet but is related more closely to the profit and loss statement. In fact the three should be considered together. The balance sheet shows the resources in which the net worth of the concern is invested and the financial position of the company for future operations; the profit and loss statement goes into the things that enter into gross profit and into the net profit. A comprehensive analysis of the details of this information presents opportunities to test the management and to become familiar with the conditions under which it operates. Along with this, however, it would be decidedly useful to have a detailed report covering the significant items affecting management in a particular line of business. Such a complete set up—balance sheet, profit and loss statement and management report—would enable the credit man better to accomplish what he is doing today, that is, co-operating constructively with his customers. Naturally this demands that the credit man should have a clear understanding of the problems involved.

Richard H. Lansburgh.² In the first place, let me express my appreciation for the work of the Committee in developing this first attempt at a

²The First National Bank, Detroit, Mich.

balance sheet of management. It is, as has already been stated this morning, a very necessary adjunct to credit operations today.

I will speak from the standpoint of the bank, assuming that other discussers will speak from the standpoint of credit men in industrial enterprises.

We feel today in the institution with which I am connected that we cannot tell anything whatsoever about an industrial company from the balance sheet that it presents. We can get some ideas concerning trends, some ideas concerning history, but we will not attempt to say whether or not it is a good credit risk from the balance sheet alone. We want to know something more, and that something more has, of course, to do with the management side. Whether or not you can ever develop a balance sheet of management, similar to a financial balance sheet, that can be taken into a committee and intelligently discussed by the people there, I do not know. This, of course, is not such a balance sheet. I will take the liberty of saying that it seems to me not to be a balance sheet at all, but rather a work sheet for the person who is going out to look at the enterprise. As such, it is very stimulating. But you will have to go much farther before you have anything which can logically be termed a balance sheet of management, something which when read will give exact information as to the status of management in a given company just as you can today tell the financial status of the company by looking at the every-day balance sheet.

I think the questions here are stimulating, but far too general for daily use. Before you can utilize such a sheet, even as a work sheet, you must tie it up more closely to the individual type of enterprise. I am inclined to think, furthermore, that there must be a little stronger emphasis in certain directions. Those of us who are going out every day to look at the condition of industrial enterprises could ask: "Is there sign of the emergence of a strong competing industry?" The answer would always be "Yes." "Is there sign of the emergence of a strong competing unit or group in the industry?" Again the answer would be "Yes." You must look at every firm with the very definite thought that these things may happen one of these days. (Based on the experience of the past) "are prices of the lines fairly stable?" Of course, much depends on what you mean by "fairly." In other words, these general questions, while they are helpful in

orienting us to the type of thing we want to think about seem to me to be so general that they would lead us into difficulty from the standpoint of analyzing a given company.

There is Question 2, under Section II, in the manufacturing enterprise sheet: "Are plant and equipment suitable, up to date and well located?" I remember a certain lady in New York who is supposed to have said to the Queen of Roumania, "Queen, you said a mouthful." That is certainly a mouthful. There you have the crux of the success or the failure of a large proportion of our manufacturing enterprises today, and you have to break that down into all manner of detail if you want to analyze the management of any particular company. You must get the value of the plant per square foot and see whether it is a fair valuation on which to earn interest charges and dividends, whether the plant for some reason or other was put in at too high a value to start with, or whether it has been written up in accordance with the appraisal of the X-Y-Z Appraisal Company, which may be high. Is the plant laid out properly? Is the sequence of operations one which brings with it a minimum of transportation charges? Is material-handling equipment properly developed or excessively developed? What is the cost of material handling in the plant? Of course, as I said, you have to judge these things in terms of the competitors' plants in a given industry. The matter of location is, of course, fundamental and should be put right at the top. Is this plant in a location where it can compete in the industry in which it is located?

The single most important item today in the consideration of management, if the plant is going to survive the condition we are in, is what the executives are doing concerning the inventory of the plant. They need to know not only what the raw-material, worked-material and finished-material inventories are, but how long those materials have been there, how rapidly they are moving, what the depreciation factors are, etc.

"Is there a clearly defined assignment of organization responsibilities?" That is very important. Not only should our responsibilities be clearly assigned and defined, but we should know how the organization is functioning. Is it working? Are there properly trained people in key positions? Are these people working smoothly? What is the actual fact concerning the ability of the head of