

tion should constitute a complete business statement.

This statement should set forth not only the financial facts of the business, as ordinarily determined by the certified public accountant, but also such data as indicate the true position or condition of the enterprise, measured with reference to a "standard risk" and the average for the industry.

The several factors taken into consideration, both financial and managerial, should be weighted and a single index number for the individual business evolved. This index number should express the position of the individual concern relative to the "standard risk" and be comparable with a similar index number for the industry.

In other words, methods similar to those employed by certain established agencies (such as Robert Morris Associates) in the analysis of financial statements and determination of financial index numbers should be applied to the entire business and to the industrial group to which it belongs.

In arriving at a credit decision such an index number could be applied to determine the factor of safety present under conditions stated by the balance sheet, which, as suggested above, should conform to the requirements of the method of measurement employed.

Plotting successive index numbers in the form of a logarithmic, or rate of change, curve will tell at a glance the story that bankers and credit men have for so long tried in vain to read in the conventional financial statement.

As stated in the program of this meeting, the subject under consideration surely raises the question, "What are the earmarks of good management?" Answer this question and you will have answered the question, "What constitutes a good credit risk?" It should not be difficult, then, to establish a standard basis of comparison and a workable plan for measuring the individual business enterprise with reference to such a standard.

Another very important question that must be answered is, "By whom are the data essential to such measurements to be collected, and by whom are the measurements to be made and presented for the information and guidance of the credit man?" Without entering into a detailed discussion of the questions appearing upon the suggestive forms prepared by the Joint Committee, it is obvious that the management of the concern under

consideration cannot be depended upon for all of the answers, nor can the credit man be expected to turn his office into an analytical laboratory. It appears to the writer, therefore, that it is, a job for the independent industrial engineer, working in conjunction with the certified public accountant and with the same professional status.

Just as the accountant prepares his financial statement from an analysis and interpretation of the financial records of the business, so must the engineer rely to a great extent upon the written records of the business. Will they tell him what he wants to know? In but a few cases they do not. It seems, therefore, that the business which would maintain adequate lines of banking and mercantile credit will have to maintain an adequate set of books designed to supplement the financial records and to give information essential to proper evaluation of its management.

The executive responsible for the management of the business, having before him properly constructed daily, weekly, and monthly reports drawn from the financial and managerial records, will be in a position to so shape the affairs of his business that it will grow to conform to standard.

It has been a long time coming, but the day is surely approaching when the conventional financial statement will be looked upon as but one of the details of the industrial statement. Running true to form, management will put up a stiff fight against any movement designed to turn the spotlight upon the inner reaches of what it may be inclined to consider its private affairs. The honest man, however, fears not the truth.

In the writer's humble opinion the subject of this meeting is without doubt the most important step ever undertaken by the Taylor Society. Although I do not feel qualified to speak for the National Association of Credit Men, I am confident that they likewise can cite no achievement of greater importance, nor as potentially far reaching in effect upon industrial economics in general and the credit situation in particular.

H. S. Person.¹⁰ It has been asked why this is called a balance sheet. Certainly it does not have close resemblance to a financial balance sheet. But if it were set up with three ver-

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tical columns to the right of the items, headed "Good," "Fair" and "Bad," for instance, one could compare the ratings of the various vital elements of management and form a judgment which would represent a net balance of values.

Mr. Wall raised the question, I believe, whether such a management balance sheet adds anything to the financial statement. His own subsequent remarks concerning pre-construction work gave the clue to the answer! A new enterprise without a financial record must be appraised as a risk on some other basis than financial records. The best basis is its organization set-up and its equipment for good management all along the line, from determination of policy to detailed operations. A concern which has a long record of financial success may well be judged on that record alone so long as industrial conditions remain normal. But in times of depression it must be judged on some other basis. Then there are always doubtful accounts; firms which have in the past had a good record but which seem to be slipping. Here an appraisal of management will be of great service in making a credit rating.

Another question was whether the credit men could use these balance sheets. I know that it

takes a great deal of skill to go through an enterprise and secure in a short visit answers to such a working sheet as has been presented here. As was suggested in the preliminary text the credit executive of the larger concerns could ask the industrial engineers of these concerns to help them make appraisals. Groups of small enterprises could combine and spread the cost of such a specialist. Or a regional group of the National Association of Credit Men could maintain such a specialist on its staff for the service of its membership and build up central office records of management capacities of those firms in the region that are doubtful risks.

I will go farther and say that I think it perfectly possible for any credit executive to learn enough about the "earmarks" of good management to be able to use such a balance sheet as a supplement to financial statements.

The contact of the Taylor Society with the National Association of Credit Men in working out this meeting has been very stimulating. I believe this first step will result eventually in something of mutual benefit to engineers, general executives and credit men. I want to thank the National Association of Credit Men for co-operating so heartily with us this afternoon.

I HAVE . . . discussed a subject in which I am greatly interested, namely the possible effective forms of international co-operation and in a purely speculative manner pointed out some ways of developing such co-operation which seems to be worth exploring. All my views on this subject are based on my conclusion that the highest degree of co-operation that we can give to an unstable world must start with continuous stability at home for all important social groups. So far as may be consistent with this primary object, we should in every feasible way contribute to the stability of the other great industrial nations of the world.

What we need is effective and rationally foresighted leadership culminating in philosophically sound planning. On the question whether we obtain such leadership from American business, the fate of capitalistic civilization may well depend. Moreover, we must remember that even plans made through such leadership will be dangerous if the leaders lack a philosophy of the problems of business as related to civilization or fail to develop the modes and habits of thought necessary to the rational foresight required in a changing world. (Wallace Brett Donham, *Business Adrift*, pp. 164-165. See "Comment" on page 45 of this BULLETIN.)