

arrives, as, for example, the Christmas trade, the stocks for branches located at a distance from the plant are inadequate, while the production coming through during the last week or two of the year increases local stocks excessively. It seems to be too much to expect the person in control of stock movements to resist the importunities of local branch managers who have the opportunity to make their appeals in person and who, therefore, are able to establish a more intimate personal relationship. The result is that they are often able to influence goods to their shelves early in the season, which should go to the far-off branches.

With a production program, on the one hand, and a sales program, on the other, there is little room for inequalities of this character. The warehousing function under an administration based upon the principle of scientific planning is planned to coordinate with both production and sales. The product manufactured each month is distributed in accordance with a predetermined plan so that the branch manager in San Francisco, or in London, will be able to compare his receipts, not with what he thinks is just, but with the schedule upon which he depends in conducting his operations. This schedule he knows is official. He knows it was planned months previously. He knows it is the result of careful coordination of all the influences affecting it. And if it was properly prepared, he knows that he had his opportunity to assist in its preparation and to present his case before it was adopted, if he at that time considered it ill-suited to the requirements of his branch.

The merchandise or warehouse manager, at the central point of distribution, is controlled not primarily by expediency from day to day, but by a well-rounded plan. He is guided by actual receipts from the factories compared with schedule. Shortages are distributed pro rata, all other things being equal; likewise, arrearages. And his efficiency is measured by the success with which he actually distributes the finished product in accordance with the predetermined plan. There can be no question of mal-distribution under such planning.

#### THE FINANCIAL FACTOR

It must be obvious from what has been said that if the planning is carried to a point where it covers the factory, sales and warehousing activities, it becomes largely a matter of simple mathematics to carry it further to cover the financial aspects of a business. Indeed, when this is done along with the rest of the planning, it sometimes becomes necessary to revise the

factory or sales plans to bring them within the financial capacity. Eagerness to expand must be tempered with conservatism on the part of the financial officials. It is lack of planning at exactly this point which is generally responsible for failures due to over-expansion. The Westinghouse case some years ago has been cited by financial writers as a classical case in point.

When it is known what goods are to be produced in detail, what they are to cost, when and how they are to be sold, what the planned sales and advertising expenses are to be, what the clerical departments will cost, etc., it is comparatively easy to prepare plans or budgets of income and expense and of cash receipts and outlays. The procedure is to prepare what might be called "a predetermined profit and loss statement" and "a predetermined balance sheet." These two statements indicate what the resultant effect upon the prosperity of the business will be, if all the plans upon which they are based are carried out. In this connection, let us not forget that this is the end toward which, in a business enterprise, we must strive; that is to say, to maintain and improve the prosperous condition of the business. Upon that economic principle rest the stability and welfare of the body politic.

With such a carefully defined goal set up, it has been my experience that the administrative officials will bend their energies to the task of bringing to an actuality the planned results. They no longer show more than a passing interest in last year's results. These are useful chiefly from an historical point of view. The real operating basis is comparison with the standards set up for this year.

A rather peculiar effect of this kind of planning comes to my mind. The principals in this case were self-made men who had built up a substantial business out of profits. They were afraid of letting Wall Street get control. They did borrow from the banks on current notes to meet the seasonal requirements. On the other hand, as the business expanded and their loan requirements became heavier and heavier, their nervousness increased. Prior to the establishment of planning schedules, the topic which caused most concern and most of the discussions and investigations was this question of outstanding paper. After the schedules went into effect and were properly functioning, the loan issue became a dead letter, although borrowings practically doubled in two years. Whenever the amount looked big, a comparison with the schedule of what it should be answered the doubt immediately.

The financial official in arranging for his bank balances, discounting of notes, flotation of securities, etc.,

goes about his work with considerably more security when he is fortified by such planning.

As in the case of the factory and the sales department, detailed internal plans are prepared within the financial department for the guidance of the collection procedure, supervision over loans, payments, etc.

#### THE PROFIT FACTOR

Such planning as has been described here leads to a clear definition of the amount of profit anticipated, toward which the entire organization is striving. But simply thus to define the goal is not enough.

The objectives of the administration get down concretely to two resultants; profits and the concern's financial condition. These two are by no means always in harmony. An attempt to increase profits unduly may bring with it financial embarrassment. Hence, in the consideration of the profit a business plans to make, it is quite as important that the plans be laid with a view toward keeping profits within proper limits as it is to attempt to earn all the profits which the traffic will bear.

Planning with respect to profit should go farther than this. It should include what disposition is to be made of the planned profits.

It is not unlikely that much of the present unrest is directly traceable to the failure on the part of administrative officials to include in such planning as has been done a distribution of the profits in accordance with a plan that is demonstrably equitable.

Here, of course, enter some rather delicate questions in which the whole industrial world just now is earnestly interested. It is not part of the purpose of this paper to advocate any particular scheme of profit-sharing or employee relationship. It is desired to point out, however, that the profits of a business equitably belong to three sets of people: to the investor, to the worker, and to the public. Just what share belongs to each is a matter for careful determination by the administration and the employees of any given concern. By far the best plan is to let the employees settle it themselves as they did in the case of the Denison Manufacturing Company. But it should be decided. And it should be decided beforehand as a matter of good business and as a matter of planning. Moreover, it should be a matter of "open covenants openly arrived at." That is to say, the organization should understand that the object for which it strives is profit, but that this profit will be divided; so much for the investors who are entitled to a fair return on their capital, plus payment for the risk they take; so much for the workers who are entitled to a fair basic wage, plus an additional share in the result of their

labor, consistent with the fact that their capital, which is bound up with their lease of life, constantly undergoes a process of exhaustion; and so much for other purposes such as research, invention, reduction of prices, improvements of quality, etc.

Capital is, or is the token of, a physical thing, and, assuming that a business is profitable, continues to exist beyond the lives of individuals. Those who own it and decide to devote it to this or that productive enterprise are entitled to payment for its use and payment for their risk. The individual worker lives, let us say, his allotted three score and ten. A basic wage to cover the mere cost of living is not enough. On the basis of pure, cold-blooded bargaining, such as has been applied to the capital end of the argument, he also is entitled to an additional payment for the depreciation which takes place in his earning ability as years in his case multiply.

As for the public, which usually is left dangling between the two, there is also something to be said. To my mind it is best said by quoting a notice sent out to dairymen by a certain large milk company some months ago and by characterizing this action as short-sighted, as well as unjust, not to say uneconomic:

The export market of milk products has entirely stopped. It is, therefore, necessary that we restrict our purchase of milk. Under no circumstances can any creamery take on an additional dairy without first getting permission from this office, and permission will not be granted for new dairies until conditions change.

All dairymen are urged not to increase their production of milk, and if possible to decrease it. This at a time when prices of milk were inordinately high and when the President of the National Manufacturers' Association had advocated a concerted effort on the part of manufacturers to reduce prices twenty-five per cent instead of meeting the inevitable wage increases. Another company raises its price of collars to thirty cents when its reports show an increase in profits from \$1,871,000 in 1918 to \$5,153,000 in 1919 and an increase in percentage on capital from 7.5 to 20; and these are not isolated cases. The argument here is not based merely upon the ethics of the procedure, but just as forcibly upon the fact that it is unscientific and uneconomic. The administrative officials of these concerns are laying themselves open to the charge of incompetency if we judge them from a point of view that looks beyond the present. They are not building soundly or in a big way.

#### PLANNING WITH RESPECT TO FUTURE DEVELOPMENT

Beyond the current year's profits lie those of future years which call for planning of an even broader character than that which we have been discussing.