

The Business World
Introduction to
Business Readings
Monsen / Saxberg



INTRODUCTION TO BUSINESS READINGS

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UNIVERSITY OF WASHINGTON

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EDITOR'S INTRODUCTION

THE BUSINESS LEADER OF TOMORROW, at some point in his early development—whether he is in business school or college, in an insurance office or a plastics factory—must obtain an overview of the business world and of its interrelationships (between groups and departments within a firm, between a firm and its outside environment). And he must understand the ways in which today's business leader coordinates and controls business enterprises. Professors Monsen and Saxberg provide this overview and understanding, in full measure, in *The Business World: Introduction to Business Readings*.

The book's forty-two lively and topical selections cover the traditional approaches to the business function but emphasize the new and developing ones. Many of the selections are written by authorities from the fields of quantitative management methods and the behavioral sciences; many of them use the vocabulary of system management and communications.

The introductions to each of the book's eight parts explore their subjects in depth and, in order to demonstrate to the student the interdisciplinary character of the business world he will enter, "cross-reference" from one subject to another—from finance to accounting to marketing, from price theory to physical distribution management to human relations (and back again). Each part concludes with a case study which enables the student to see what he has learned in the light of experience—U. S. Steel's 1962 experience in trying to raise the general level of its prices; the experience of Sprague Electric, General Electric, and IBM with electronic data processing; the accountant's experience in attempting to "help management manage."

The editors are justified in believing that *The Business World* provides a format for successful teaching in the introduction to business course. The fact that its forty-two selections are now collected in one book will strengthen today's trend toward presenting the student who takes the introduction to business course with a wealth of material and a multiplicity of points of view. And, incidentally, strengthen too the position of the hard-pressed college libraries.

For all of these reasons, we salute *The Business World: Introduction to Business Readings*, an up-to-date compendium for the study of business at the college level.

Joseph W. Towle

WASHINGTON UNIVERSITY

PREFACE

THE BUSINESS WORLD, FROM NEW YORK'S WALL STREET to San Francisco's Montgomery Street, and farther afield, is changing rapidly. High-speed computers, new mathematical and statistical tools, and data from the behavioral sciences are providing a "knowledge explosion" which is of inestimable benefit to the modern businessman.

As the business world changes, business education changes too. We believe that it is often difficult for the writer of a business textbook — who is charged primarily with the enduring, and Herculean, task of giving the student an overview of business and how it functions — to include in his textbook the contemporary happenings in business. Therefore, we have edited this book of readings in the hope that it will supplement existing texts with reports of contemporary happenings that the student will find exciting and intellectually stimulating.

The selections in *The Business World: Introduction to Business Readings*, and its organization, reflect the major revolutions that have occurred in business and in business schools over the last decade: the emphasis on quantitative methods, on the contributions of the behavioral sciences, and on placing business within its environment — international, as well as national. Herbert Klein writes on "Information Explosion in the Factory," Richard P. Coleman tells us about "The Significance of Social Stratification in Selling," Hans Apel discusses "Profits in the Economy," Ernest Dichter describes "The World Customer," and tens of other authors contribute the results of their original thought and research.

In our eight part introductions — dealing with the business environment; management and organization; marketing; production, transportation, and physical distribution; personnel and human resources; finance; accounting; and, finally, with social issues — we have essayed to give the student an outline of the contemporary business world and to demonstrate to him the interrelationships among disciplines that characterize it. For instance, we have tried to show him how finance, accounting, and marketing interrelate and how a sales force manager, as he goes about his day-by-day job, makes use of a wide variety of knowledge — of price theory, physical distribution management, personnel management.

Each part is preceded by questions — from "What is American cap-

italism?" to "Is business capable of *self*-regulation?" which we hope will spark the student's curiosity. And each part concludes with a case study which can be used independently with text material, as well as in conjunction with the readings. These cases give the student a chance to analyze business in actual, and often dramatic, situations.

In editing this interdisciplinary book of readings, we have drawn upon the learning of specialists who do indeed represent a wide range of disciplines. We would like to thank, for their general advice and for their specific suggestions, the Houghton Mifflin Advisory Staff in Business Administration: Professor John W. Cowee of the University of California, Berkeley (Insurance and Risk Management); Professor Marshall D. Ketchum of The University of Chicago (Finance); Professor Taylor W. Meloan of the University of Southern California (Marketing); Professor Joseph W. Towle of Washington University (Management); Professor Robert F. Walden of Indiana University (Accounting); and Professor L. Leslie Waters of Indiana University (Transportation). Our gratitude also to Professor L. Vann Seawell of Indiana University's Department of Accounting. And to Mr. Hugh E. Joyce, Jr., and Mrs. Betty Gray of Houghton Mifflin Company.

Since we live in a business civilization, courses aimed at describing the business world have a profound relevance not only to students of business but to students in other fields as well. We hope that *The Business World: Introduction to Business Readings* will give students insights into this world — insights which will help them as they set about choosing courses, jobs, careers.

R. Joseph Monsen, Jr.
Borje O. Saxberg

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PART ONE

The Business Environment: Its Nature and Opportunities

What is American capitalism?

What are profits?

Who gets to the top?

The modern business environment is a combination of traditional institutions, roles, and mores and of new changes in production, distribution, and consumption patterns created by developments in science and technology. Thus our business society is a balance between two major forces — continuity and change. What are the forces for continuity, for maintaining traditional ways of doing things, and what are the forces for change, for doing things in new ways? Throughout the readings in this book these two questions should be kept in mind. For the tension in modern society is largely the result of conflict between the traditional ways of doing and thinking about things and the new ways that are trying to win acceptance.

Business can, of course, be carried on in either a traditional environment (such as feudalism) or in a "brave new world" or utopian environment. The important point to remember is that business works within the structure of some given system — whether it is capitalism, communism, fascism, or what have you. Thus the particular type of economic system in which the businessman finds himself provides the ground rules of the game. If he fails to understand the ground rules, he will wind up in jail or bankrupt.

Under what type of an economic and political system does business operate in the United States today? Scholars are hard put to name it. Perhaps in essence it is something of a mixed-market, welfare, capitalistic economic system existing within a pluralistic form of democracy. What does this mean? Briefly, this — that we no longer have a pure, simple, competitive market that sets all prices and is the regulating device in the economy (if, in fact, we ever did have such a market). Today, business operates under various types of competitive markets and Big Business (and Big Government and Big Labor) have much to say about prices. Thus in this sense we have a mixed market composed of many different forms of competition — from the small businessman to the big monopolist.

What do we mean by a "welfare" system? Essentially, that in a political system of democracy many groups compete for public favors ("many groups," hence, "plural groups" who go to make up the "pluralism" of the political scientists), and that their competition tends to produce economic benefits for the mass of the voters; after all, the majority rules. Thus we have many types of welfare benefits in our society today: unemployment insurance, old age compensation, Social Security, Medicare, and others.

Capitalism is a concept that is interpreted in a number of different ways. Currently, there are at least five major interpretations of contemporary American capitalism. Writers point out that, over the past few hundred years, capitalism has been somewhat different in each historical age. Indeed, around today's world it is a coat of many colors, for it is different in each country that espouses it — partly because of the different traditions and values that people hold; partly because of differences in levels of economic development and in types of political systems and traditions. Whether or not the traditional black-and-white definition of capitalism fits very well any more, it is useful in forming some sort of contrast to the shadings of most "modern capitalism." The traditional definition of capitalism usually implies an economy with some type of market system, with profit incentives, and with the institution of private property. In other words, "Capitalism is an economic system in which private ownership operates in a market environment for the ostensible purpose of profit making."¹

The understanding of American business then requires some understanding of American capitalism, of the basic environment in which our modern business system flourishes. The modern businessman may change our contemporary capitalism (both in the present and in the future) but, at the same time, he is a product of the values, beliefs, and ways of doing things that have developed capitalism.

¹ R. J. Monsen, *Modern American Capitalism: Ideologies and Issues*, Houghton Mifflin Co., 1963, page 13.

Today the businessman used to the environment of capitalism is finding out, as business becomes increasingly international, that he must know how to operate under other environments too — under, say, national planning in France or with socialism as in Great Britain and in other countries. The many new nations of Africa may be hard to classify in terms of environment. But frequently they adhere to traditions, values, and methods of doing business which are different from those of the American firm trying to do business with them and which the American firm must learn. It is clear that, as the business environment becomes more international, it becomes increasingly complex but, it might be added, also increasingly important.

*Can Anyone Explain Capitalism?**

R. JOSEPH MONSEN, JR.
University of Washington

What is American capitalism? Professor Monsen sets before us a whole spectrum of possible answers as he explores our major economic ideologies — the classical ideology, the managerial ideology, the ideology of countervailing power, and the official export ideology.

If people on the streets of Moscow and New York were stopped and asked to define capitalism (assuming that anyone on a New York street could be stopped), the Russians, I suspect, would have little trouble in answering such a question, the Americans a great deal. While the description of capitalism given by the Muscovites might sound like something out of Dickens, they would probably be quite unanimous and positive about it. The New Yorkers, however, would be uneasy about even the word “capitalism,” and their definitions would be both varied and vague. Without drawing a moral from such an imaginary poll, it is quite clear that in the United States today there are number of ideas about what this thing called capitalism really is.

Schools in this country are making increasing efforts to explain American capitalism and our economic system within the classrooms. In most plans to develop a program that will explain our economic system to students, however, two crucial factors are overlooked: the bias of those developing such material and the attitude of the teacher toward capitalism. These

* Taken and adapted from R. Joseph Monsen, Jr., “Can Anyone Explain Capitalism?,” *Saturday Review*, December 14, 1963, pp. 13–15, 26. Used by permission.

factors will necessarily color any explanation the student receives. It may be argued that this is true of all education. I would agree. But in the case of capitalism the problem is considerably more involved and controversial than in most. For even if capitalism is defined quite neutrally as a system in which private ownership operates in a market environment for profit-making, the critical role of government remains to be interpreted. Yet in the United States today no issue is more hotly debated than the extent to which government should participate in economic affairs. There is little doubt that the role of government as perceived by J. K. Galbraith or by Arthur Schlesinger, Jr., is considerably larger than that accepted by Barry Goldwater, William Buckley, or the National Association of Manufacturers.

This difference of opinion concerning the role of government brings us to the central point of this article: that in the United States today at least five major versions of capitalism can be found. The role of government in these versions is a major characteristic.

These separate versions of capitalism may, in fact, be considered as separate ideologies — ideologies because they present explanations or rationalizations that are used by groups to justify their own positions. Economic ideologies, like religious dogmas, have their “true believers” as well as those adherents who espouse them for more practical ends.

To understand our economy today one must have some idea of what our major ideologies about capitalism are and who espouses them. Congressional debates and public argument in the press on major issues become much easier to follow once the positions of various groups are linked to their ideologies. We frequently hear that we have no economic ideology in this country, or that we have finally reached, as Daniel Bell entitled his book, *The End of Ideology*. Nothing could be further from the truth. Even though Marxian and collectivist ideologies are not significant in the mainstream of American thought today, to argue that we have no other economic ideologies is extremely naïve.

The Classical Ideology

Of the ideologies of American capitalism prominently in print today, the oldest is what has been called the classical ideology of capitalism. It is disseminated in the United States largely by the National Association of Manufacturers, the Foundation for Economic Education, the Committee for Constitutional Government, the United States Chamber of Commerce, and the American Enterprise Association, to name only some of the better-known organizations. While at times these groups may vary, through their many publications they present the major interpretation of this most traditional version of the American capitalist ideology. The importance of this ideology in business circles is indicated by a report