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How to Lose It





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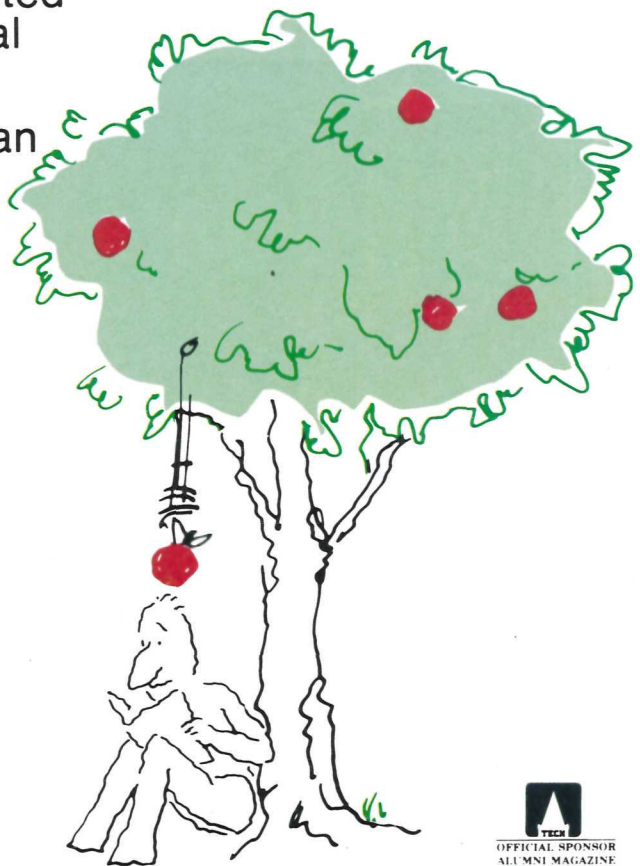
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Georgia Tech

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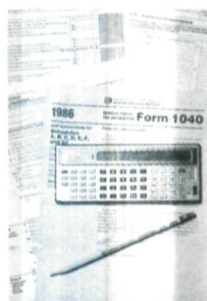
By John Dunn

As a young man, Franklin drafted guidelines for a successful life that incorporated his business philosophy.

ON THE COVER

Our crystal ball reveals that the future of tax reform is still as uncertain as the effects of the new tax law itself. Story begins on page 14. Economists are also concerned with the long-term effects of a budget deficit that won't go away. Story begins on page 24.

Cover photo by Gary Meek.



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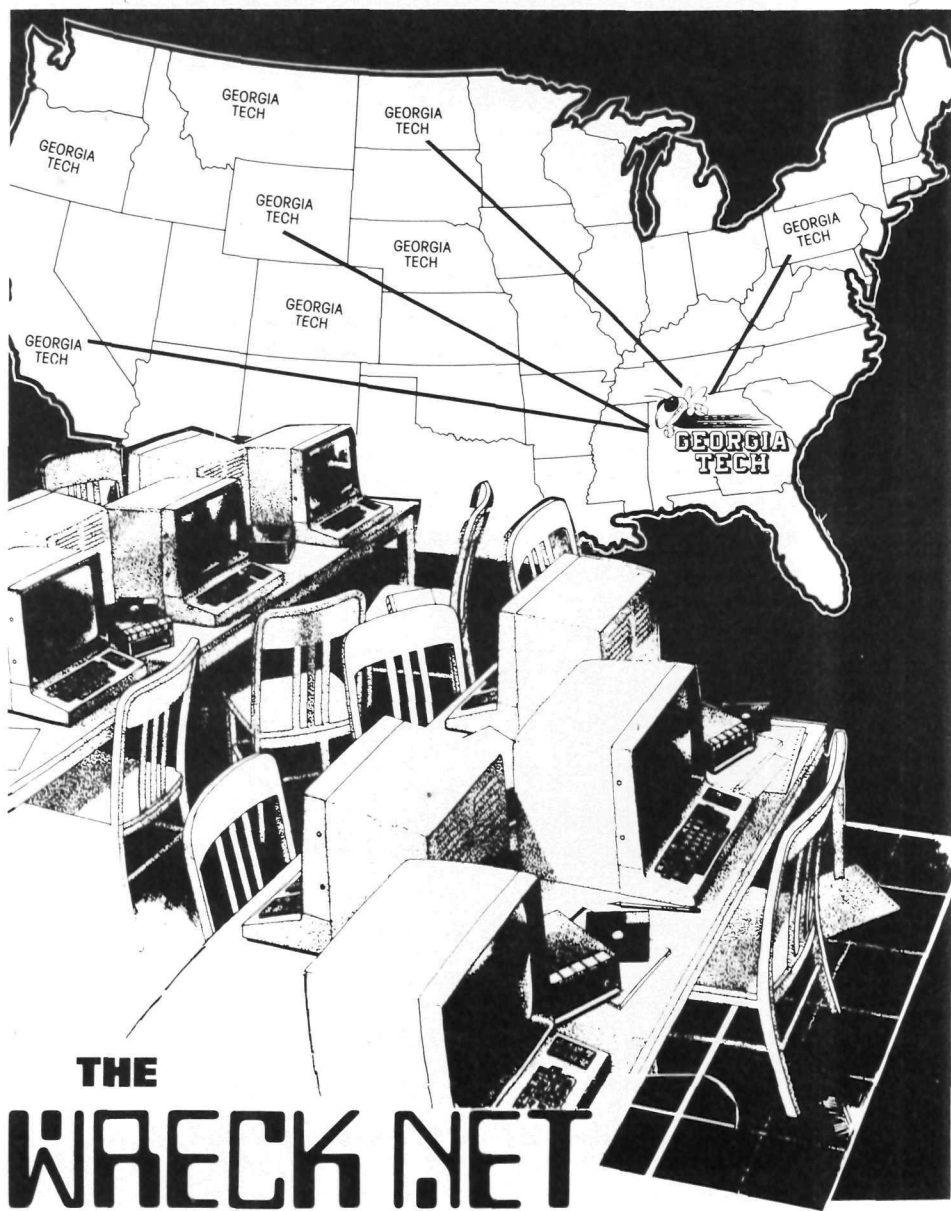


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DISTINCTIVE TECH CREDIT CARDS AVAILABLE TO ALUMNI IN APRIL

The Georgia Tech Alumni Association, in conjunction with C&S Bank, will offer "prestige" VISA and MasterCard credit cards especially designed for Georgia Tech alumni and friends beginning in April.

The distinctive black and gold cards, which will not cost extra to obtain or use, will carry a \$12 annual fee and offer competitive interest rates. In addition, C&S will contribute a portion of the money generated from the cards to the Alumni Association.

The cards offer a new means of raising funds to support student scholarships and other Alumni Association programs at no additional cost to alumni. The association receives money for each new account opened, and will share in a portion of the revenues generated by card holders.

"This is a very exciting program," said John B. Carter Jr., vice president and executive director of the Alumni Association. "Friends and alumni can show their Tech pride at the same time they contribute to the Institute. All this at no additional cost to the cardholder. In fact, the annual fee of \$12 is one of the lowest available."

Card applications will be mailed to all alumni and friends in April, with additional features of the card announced at that time, said Wayne Parker, associate vice president.

Georgia Tech is the first school in the state of Georgia to offer this benefit to its alumni, Parker added. Other universities that offer prestige credit cards include Boston University, Penn State and the University of Kentucky.

MCGILL NAMED DIRECTOR OF TEACHING, LEARNING CENTER

As a boy growing up in Slidell, La., Dr. David J. McGill was inspired by the stories his dad told about Georgia Tech and how its remarkable teachers influenced his life.

McGill now is in a unique position to help Georgia Tech continue its tradition of teaching excellence. A professor in the Engineering Science and Mechanics program in the School of Civil Engineering, McGill has been named director of the Center for the Enhancement of Teaching and Learning. He assumes the post formerly held by Dr. Edward Loveland, director and professor in the School of Psychology, who retired last June, but who had been serving as acting director of the center while a search was conducted for a permanent director.

Criteria for the position stipulated that the director be a tenured faculty member and that the director would report directly to the vice president for Academic Affairs.

"I applied for the job of director because of two committees that worked over the past three-and-a-half years on improvement of assessing and developing and supporting teaching,"

McGill said. "I was on both of those committees, so I had an ongoing interest in teaching on campus. I was very interested in continuing that work. I have always been interested in teaching; I have been teaching for 25 years, and for 21 of those years, here at Tech."

McGill received his bachelor's in electrical engineering and master's in engineering mechanics from Louisiana State University and his Ph.D. in engineering mechanics from the University of Kansas, and taught at both institutions before coming to Tech, where his father, Chambless McGill, Com '28, had graduated.



Gary Meek

Dr. David J. McGill

"Dad remembers his teachers to this very day and it has been almost 60 years since he graduated," McGill said. "They just helped him in so many ways, both in the classroom and out of the classroom. It was inspiring to me when I was a kid when he used to talk about Tech and its teachers."

McGill said the purpose of the center is to "encourage good teaching throughout the campus, wherever teaching and learning are taking place — that's not just classroom teaching, but teaching in the research laboratories, teaching in seminars, and teaching in personal discussions with students in offices. Any kind of help that we can give to encourage teaching proficiency is what we're going to be about."

A major emphasis of the center will be in helping young faculty members and graduate assistants develop teaching skills. Last fall, for example, the center, together with the Department of Continuing Education, held an orientation for

new faculty, McGill said. Next fall, the center plans to put on a program for graduate assistants, he added.

"With a reasonably small number of seminars for graduate teaching assistants from all across campus, we could cover subjects addressing problems they might expect in the classroom," he said.

McGill said that at the invitation of a professor, the center will video-tape his lecture and present him with the tape at the end of the class period. Professors can critique their tapes themselves or invite a professor associated with the center or their own discipline to critique it with them.

"We're in the business of emphasizing teaching and learning," McGill said. "The whole emphasis is a positive place where administrators, faculty members and students can come and talk about and put into practice programs to improve teaching."

The center has recommended to schools and departments that a young faculty member be assigned a mentor in his or her department who would be supportive, helpful and familiar with teaching and research projects.

"That mentor would have the responsibility of helping that young person to develop his teaching skills, his teaching proficiency. It would be a person that a young faculty member could go to in order to discuss teaching, classes, and relationships with undergraduate students. It would be a person to talk to confidentially about problems he or she might be having."

The center plans to start a program for video-taping the classroom performance of outstanding teachers on campus, McGill said. "This might become the basis for taped seminars on specific teaching topics." Additionally, the center wants to establish a collection of publications relating to teaching as well as research and service.

McGill said the center may sponsor breakfast meetings in the future, patterned after Toastmasters, that would not only develop speaking skills, but also promote career friendships across the campus.

"We hope that the center can help make friendships," McGill said. "In other words, that the center would always be positive and supportive."

BOBBY ROSS COMPLETES FOOTBALL COACHING STAFF

Georgia Tech head football coach Bobby Ross has completed filling coaching positions on his staff.

Former Maryland aide Ralph Friedgen, who coached the offensive line and served as offensive coordinator under Ross, was named Tech's offensive coordinator and quarterback coach, and former Syracuse defensive line coach George O'Leary has been named defensive coordinator and defensive line coach.

Pat Watson, a veteran offensive coordinator and line coach at Virginia Tech and North Carolina under Bill Dooley, is the offensive line coach.

Former Tech wide receiver Jimmy Robinson, a 1975 graduate who was a standout at Tech from 1972-74 before beginning a seven-year career in the NFL, has been named coach of the wide receivers. Robinson set several records for the Yellow Jackets and is second on Tech's career receiving yardage list. In the pros he played for the Atlanta Falcons, New York Giants, San Francisco 49ers and Denver Broncos before accepting a coaching position with the USFL Memphis Showboats in 1984-85.

Defensively, former Wake Forest defensive coordinator Charlie Rizzo will work with the inside linebackers, former Kent State defensive coordinator Chuck Priefer will coach defensive backs, and former Army assistant Brian Baker will tutor the outside linebackers. Ross also elevated Tech volunteer coach Mark Hendrickson to full-time status in charge of special teams.

"I'm very excited about the staff we've been able to put together," Ross said. "I think it's one of the best in America, and we have a good mix of veteran coaches and young coaches with a lot of talent. They are also outstanding people and will represent Georgia Tech well."

DRESSED IN WHITE



Gary Meek

The Georgia Tech campus took on the look of a winter wonderland in January after several inches of snow blanketed the Atlanta area. The snowfall was a festive occasion as the campus closed Thursday, Jan. 22, providing students a rare opportunity for snowball fights and the construction of jolly-looking snowmen and anatomically correct snow women. But the snow that had closed the campus on Thursday was vanishing by Friday and the campus resumed its usual schedule.

ATLANTA, TECH RECEIVE ACCOLADES FOR COMPLEMENTARY RELATIONSHIP

Fortune magazine, in its Feb 2, 1987, edition, includes the Atlanta metro area in its listing of "Where to Live — and Prosper" in the 1990s. The article advises job seekers to "go where there are large concentrations of brains, plus cultural amenities that attract bright and creative people," and points to areas "near prestigious, research-oriented universities" as among the most promising.

Atlanta qualified for inclusion in the list, in large part because of the presence of Georgia Tech, which Fortune called "a magnet for brainpower" along with other well-known institutions such as Stanford, MIT, Carnegie-Mellon and Cal Tech.

The article stated that universities are important because "their prized faculties attract top-notch graduate students. Together they launch innovative companies, many of them — though not all — aimed at new high-tech realms."

Such new industries, already a major source of new jobs in the country, are likely to become the leading source of jobs in the next decade, according to *Fortune*.

To illustrate the relationship between university research and economic prosperity in the coming years, the article points to the classic example of Silicon Valley in California, which was fostered by the engineering department of Stanford.

LOST GAME REWRITES FOOTBALL RECORD BOOKS

The name Dodd is synonymous with football and Georgia Tech's winning tradition — but the reference has always applied to the legendary coach Bobby Dodd. It is another Dodd, however, who has rewritten Georgia Tech's football records all the way back to 1893. This Dodd is Tech's sports librarian, professor James B. Dodd, who discovered a "lost" football game in which Tech defeated Mercer University. It not only rewrites the record book, but gives Tech its first winning season in only its second year of football.

In the rewriting, it also sweetens Georgia Tech's 35-18 between-the-hedges victory over arch-rival Georgia at Athens in 1984. The victory becomes Tech's 500th football win and the 1985 season-opening 28-18 win over North Carolina State becomes the 501st victory.

How did Georgia Tech lose track of a football game and how did Dodd find it?

The sports librarian post was created in July 1985 under Miriam Drake, director, Price Gilbert Memorial Library, in cooperation with Athletic Director Homer Rice. One of the items presented to Dodd by the Athletic Association for the library archives and possible museum display was an old framed newspaper account of the 1893 football game in which Tech defeated Mercer 10-6.



Margaret Barrett

Professor Dodd stands next to framed 1893 article.

The game was not on Tech's original schedule. The newspaper accounts point out that Tech had agreed to play Mercer on very short notice after Georgia cancelled its game with the Macon university. Georgia's manager, Paul L. Fleming, told *The Constitution* Georgia cancelled because of a disagreement about gate receipts from the game and because the Mercer team had some ringers — "imported prize fighters...Mr. Chapman of Liberty County; Mr. Stallings, the well-known professional baseballist; and Mr. Atkinson, from somewhere out in the woods."

The newspaper account with a Dec. 15 dateline noted that Georgia's cancellation created "quite a little excitement."

"The town had been worked up to a high point of enthusiasm over the game, as it would have been the first real high-class game ever played in Macon."

The newspaper article added, "Arrangements were closed by wire tonight for the Techs, of Atlanta, to take the place of the university in the game."

The victory over Mercer gave Tech a 2-1-1 record for 1893.

"This was the seventh game that Georgia Tech played that we know about," Dodd said. "It was the second game we had ever won. The first game we won was the game against Georgia which was five weeks earlier."

"That was interesting just to read," Dodd said. "So we read it and chuckled about it. About a week later it occurred to me that I ought to look it up in the record book. It turned out that Georgia Tech had no record of that football game."

While searching for additional information about the game, Dodd found an article in the Dec. 16, 1893, issue of *The Atlanta Constitution* which announced the game was to be played that day. Other sources throwing light on the same game were located in the Mercer University archives, the Middle Georgia Regional Library in Macon, and the University of Georgia archives.

TECH SEEKS SOLUTIONS TO HAZARDOUS WASTE

In just one year, American industry produces between 70 billion and 90 billion pounds of hazardous waste — 300 to 400 pounds for every person living in the United States.

By the year 2000, annual production of hazardous waste in the United States could double.

At Georgia Tech, the Environmental Health and Safety Division is waging a battle against hazardous waste on several fronts, including research into better methods for analyzing and controlling hazardous waste; a technical assistance program that helps Georgia businesses comply with state and federal regulations; and a course in "Hazardous Material Control and Emergency Response."

Tech's research in hazardous waste includes:

- The use of an electrical field as a sort of chemical magnet for cleaning up hazardous materials that have seeped into the ground. In a process called "electro-osmosis," negatively charged probes placed in the ground would attract water — and the waste it contains — to a single location.

- "SpillMap," a computer expert system designed for the first moments of an emergency, when untrained people such as night watchmen must take action before help arrives. If, for example, a guard at a chemical plant discovered a suspicious puddle, "SpillMap" would ask the guard a series of questions. Combining the guard's answers with previously installed data about the plant, SpillMap could identify the material, trace the location of the leak and recommend a "logical response action" to the guard.

- An investigation into the use of a tiny worm called a nematode as a quick, accurate way to measure the potential effects of hazardous materials on human health.

- The development of an industrial by-product as a material to absorb hazardous waste. The by-product is lignin, a substance that occurs naturally in wood and is produced in a process that extract fuel alcohol from biomass. Lignin, which "glues" together cell walls, could be

more cost-effective than activated charcoal and other materials now used to trap hazardous wastes.

While Tech's research program concentrates on what to do when things go wrong, the goal of the technical assistance program is to prevent problems with hazardous waste.

To help companies in Georgia comply with increasingly stringent environmental laws, Tech created the Hazardous Waste Technical Assistance Program. The program conducts on-site inspections and makes recommendations for dealing with hazardous waste. All services are free and confidential.

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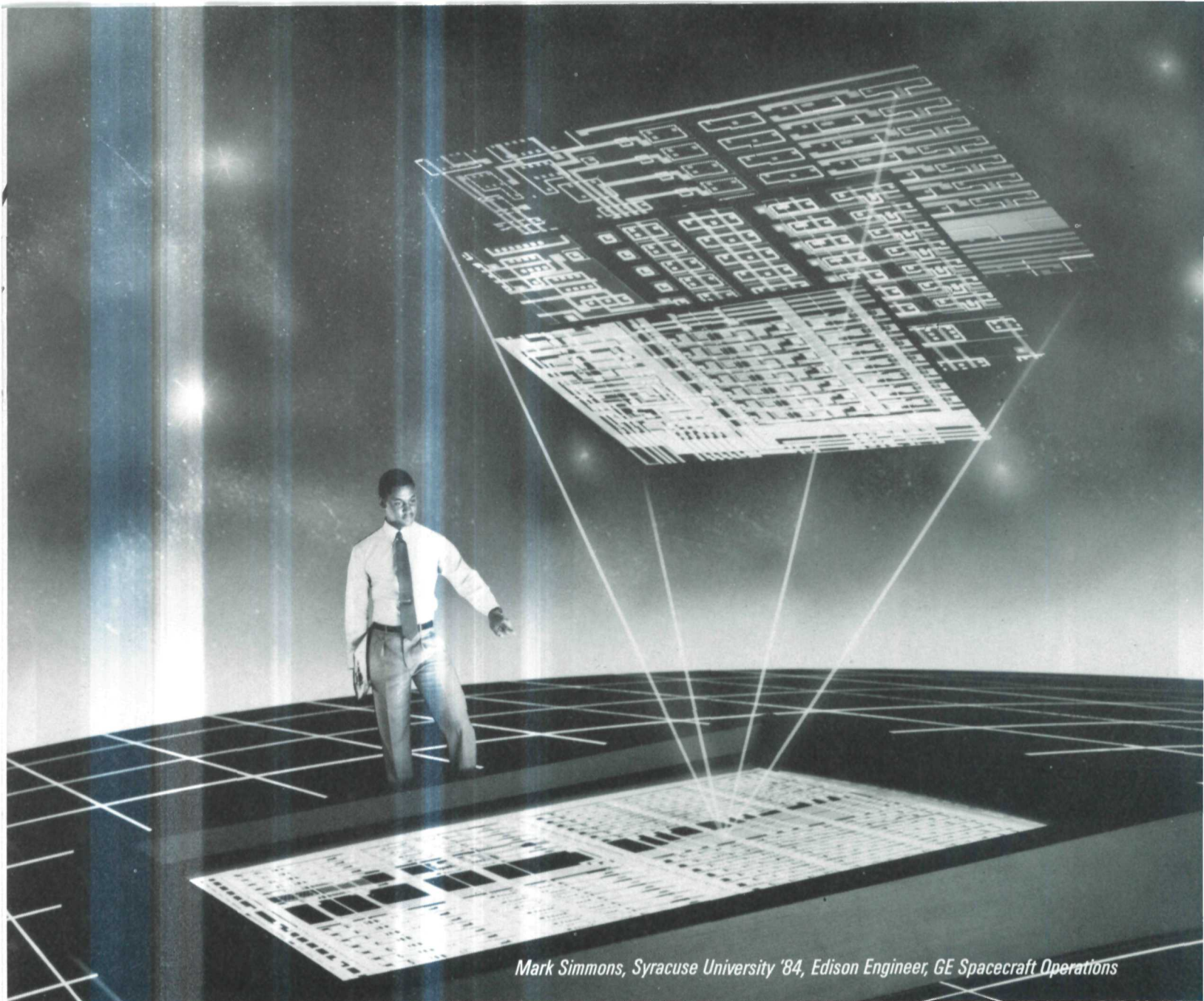
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Margaret Barrett

THE RULES ARE DIFFERENT

B Y G A R Y G O E T T L I N G

HIGHLIGHTS OF THE LAW

The 1986 Tax Reform Act is certain to foster a temporary boom for at least one group: the tax and financial planners who will need to help their clients cope with the new system. But at the same time, the law's elimination of hundreds of loopholes has left many in the financial planning industry wondering what to do next.

How the complicated new law will ultimately affect individual taxpayers, specific industries and the economy as a whole must, for the moment, remain a matter of conjecture. But it is certainly a masterpiece of public relations. The new law comes at a time when tax evasion is sharply rising. If perceived as a fairer and more equitable distribution of the tax burden, the law may encourage compliance.

Truly the most amazing thing about the measure is not its merits or shortcomings, but that it was enacted at all. After a four-year bipartisan struggle, Congress bucked the decades-old precedent of using the tax system to promote social and economic goals. Lawmakers instead designed a relatively revenue-neutral system that virtually abandons progressivity while attempting to spread the tax burden more equitably. More importantly, the new law promotes a trend toward economic (income-producing) investments rather than tax-oriented investments.

(The Tax Reform Act isn't airtight, however. By allowing the interest deduction on a second home, Congress may unwittingly have helped some taxpayers save money on their leisure activities. A sailboat, yacht or recreational vehicle may qualify as a "second home" if certain conditions such as having sleeping quarters and a kitchen are met.)

For individual taxpayers, the most important aspect of the 1986 Tax Reform Act is its radical reduction in the marginal tax brackets to their lowest levels since the administration of Calvin Coolidge. The previous 15 levels of rates will be phased out by 1988 in favor of a

- Individual tax rates, which previously ranged from 11 percent to 50 percent, have been cut to five rates this year, and will be reduced to two in 1988 — 15 percent and 28 percent, the latter subject to a 5 percent surcharge at certain levels for an effective 33 percent top rate.

- Personal exemptions have been increased from \$1,080 for 1986 to \$1,900 this year, and \$2,000 when the law is fully phased in by 1989.

- The deduction for a married couple when both work, worth up to \$3,000 under prior law, has been eliminated.

- Deductions for state and local income taxes, and property taxes as well as mortgage interest on first and second homes, have been retained. But the consumer interest deduction will be phased out — only 65 percent deductible in 1987, 40 percent in 1988, 20 percent in 1989, 10 percent in 1990 and zero in 1991.

- State and local sales tax will no longer be deductible.

- Rules concerning deductibility of some miscellaneous items such as employee business expenses, home office, medical expenses, business meals and entertainment, have been tightened.

- Income averaging will not be allowed under the new law.

- IRA deductions will be phased out for middle- and high-income taxpayers, although IRA's will still benefit from tax-deferred accumulation.

- Unemployment compensation benefits will be fully taxable.

- The child care credit has been retained.

- Casualty losses have been retained as an itemized deduction.

- Moving expense, formerly a direct adjustment to gross income, has become an itemized deduction.

two-rate indexed system of 15 percent and 28 percent. The latter rate is subject to a five percent surcharge at certain income levels, for a possible 33 percent rate.

While the top tax rate on corporate income will drop from 46 percent to 34 percent, the concurrent removal of many incentives will subject far more corporations' income to tax. The 21 percent minimum tax on corporate profits will make it difficult for businesses to escape paying tax altogether.

Proponents of tax reform argue that the old tax system with its jumble of exceptions, deductions and exemptions directed too much money into non-productive areas solely for tax purposes. *Inc.* magazine reported (December 1986) that investor losses on limited partnerships in 1984 totaled \$73 billion (the latest year available). About half of that money was invested in tax shelters that were, at least initially, designed to generate a loss, according to *Inc.*

Syndicators are not the only ones who will have to do business differently as a result of the far-reaching reforms of the Act. Lower tax rates will substantially raise the after-tax cost of giving to charitable organizations. In 1986, a taxpayer could give \$1 for as little as 50 cents. By 1988 a \$1 gift could cost at least 72 cents, although some taxpayers in the 33 percent bracket may be able to donate a dollar for as little as 67 cents.

Educational, cultural and civic institutions that rely heavily on large donations may find the new tax law not so charitable. The six- and seven-figure donations from private individuals used to fund capital improvements may be much more difficult to obtain.

Rick Worsham, a certified public accountant, attorney and partner in the Atlanta accounting firm Brooks, Worsham & Company, says that "While charitable giving is certainly initiated by donative intent, I think the size of the

Major tax reform measures have been enacted at a rate of about one every two years. Two years from now, there will be a new occupant of 1600 Pennsylvania Avenue; the potential for further change is strong.



D. Richard Worsham

gifts that people make are, in most cases, tax-driven. They look at charitable giving as an alternative to paying higher taxes."

Lower marginal rates, however, will all but eliminate the tax incentive for high-income individuals to make large contributions. "The after-tax cost of giving has increased tremendously," says the 1968 Tech chemical engineering graduate and 1973 graduate of the University of Virginia Law School. "I think people will be more conscious of their charitable donations in the sense that it's going to cost them more out-of-pocket to make a gift than it did prior to the 1986 Act," adds Worsham, a trustee of the Georgia Tech Alumni Association.

To illustrate the implications of the new law, suppose a wealthy Georgia Tech alumnus wanted to help the Institute by donating 1,000 shares of Amalgamated Neat-O stock. The stock, purchased several years ago at \$100 per share, is now selling for \$150 per share.

Under prior law, the alumnus could claim a deduction for the full fair market value of the appreciated stock — a total of \$150,000. Under the new law, while our alumnus can still claim the full value of the gift, the amount of Neat-O's per-share appreciation — \$50,000 total — is a tax preference item for computing the alternative minimum tax (AMT).

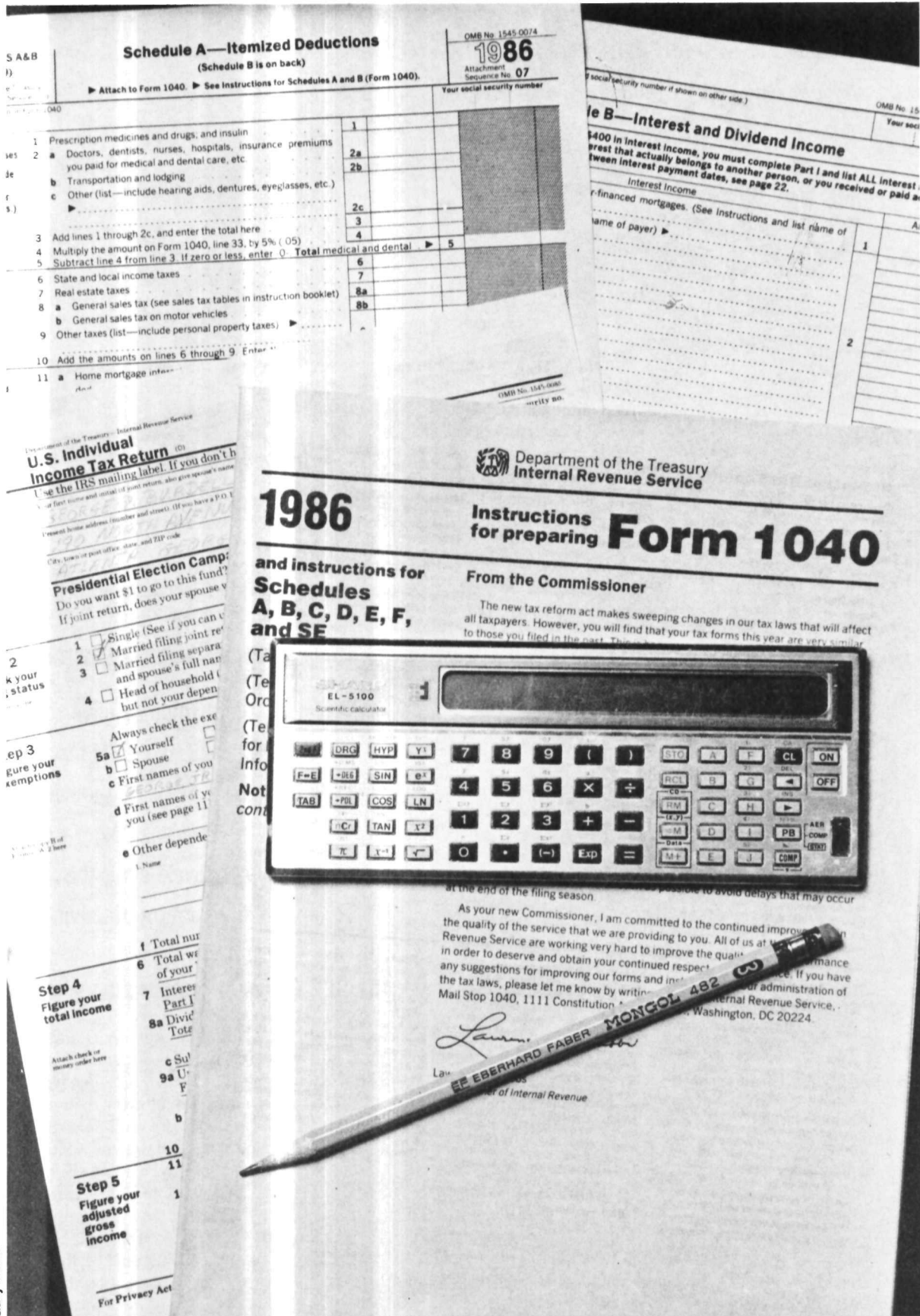
AMT is an additional tax liability for high-income taxpayers whose adjusted gross income, added to certain "tax preference items" such as accelerated depreciation, exceeds a certain amount.

Thus, in our example, the alumnus no longer has the ability to gift that appreciation without tax consequences, if he or she is subject, as many wealthy individuals are, to the AMT. In some cases, making a large gift as in the example could place a person into an AMT situation.

The new tax law offers good news and bad news for Roll Call and other annual fundraising activities at Georgia Tech. Although charitable contributions will remain an itemized deduction, lower tax brackets mean the after-tax cost of giving will be higher than in years past.

Some other giving incentives are a part of the new law. Gifts of intangible property or real estate may qualify under special election for the 50 percent contribution ceiling, rather than the 30 percent ceiling that applies to certain appreciated property gifts. Most types of charitable trusts will continue to offer attractive benefits. Special tax treatment will apply to corporate gifts of certain scientific research equipment to qualifying tax-exempt scientific research organizations. Also, the law retains the exclusion for awards for charitable, scientific, or artistic achievements if the recipient designates the prize be given directly to a tax-exempt charitable organization.

Under the new law, saving money for a child's college education may require new approaches.



Now, since ordinary income is on a parity with capital gains, investors might look at a business opportunity that generates current ordinary income on the same basis as they would a growth-oriented business. High-tech firms may not be as attractive as service firms.

In the past, a common strategy for saving college money involved income-shifting techniques such as the Clifford trust, whereby each parent could shift up to \$10,000 per year to the child via the trust. That money would then be taxed separately as the trust's or the child's income, at a substantially lower rate than that of the parents. The accumulated income from the trust would pay for college, and after 10 years the parents could re-claim the principal.

The rules are a lot different now. "The first \$500 of a child's unearned income escapes tax," Worsham says. "The second \$500 is taxed at the child's rate. But anything over \$1,000 for a child under age 14 is taxed at the parents' rate."

But there is still room for maneuvering even within the tighter confines of the new tax code. Worsham says that one strategy involves investments that do not generate taxable income. "If a parent now wanted to make a gift to a child for college, something that would build up over time to generate a college fund, they might purchase and transfer to the child a tax-free municipal bond, because there would be no income tax to either party," he says. "And because of the income tax neutrality of such investments, most of these arrangements are being made in a pure savings or estate planning context."

Each parent can theoretically make a \$10,000/year — \$20,000 total — gift to a child and be free of any gift tax consequences. "And what people are doing is making those gifts, putting the money into a tax-free investment vehicle such as a municipal bond, maybe a tax-deferred annuity, single-premium life insurance policy or growth stock mutual fund — something that generates little or no current taxable income," Worsham says.

After the child attains age 14, there may be investment advantages to shifting the accumulated savings into higher-yielding taxable investment vehicles, he adds. The after-tax yields at the child's

tax rate may exceed the previous tax-free yield.

While there are still many ways to save money for college expenses, they tend to be lower-yielding options than what was available in past years. The key, says Worsham, "is to get started earlier."

Repeal of the preferential capital gains treatment, which will affect capital accumulation and charitable giving, could have a strong effect on the types of new business formed, Worsham says.

For individual taxpayers, the most important aspect of the 1986 Tax Reform Act is its radical reduction of the marginal tax brackets to their lowest levels since the administration of Calvin Coolidge.

"A lot of entrepreneurs and venture capitalists in the past have invested in small, growth companies with the idea that they would grow their capital at a rapid rate and would then receive a favorable capital gains treatment upon the sale of the business. But now, since ordinary income is on a parity with capital gains, investors might look at a business opportunity that generates current ordinary income on the same basis as they would a more growth-oriented business."

The implication, says Worsham, is that "high-tech firms, which don't generate a lot of current income because of their long startup period, may not be as attractive as, for instance, a service-oriented business that is already producing income."

Gary Meek

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While there are still many ways to save money for college expenses, they tend to be lower-yielding options than what was available in past years.

Worsham adds that he doesn't think the situation will hurt the rate of formation of new business. Realistically, he says, "most people don't start a business focusing only on capital gains treatment upon its subsequent sale, but on the psychic and monetary rewards of building a business."

In the case of the new federal income tax law, the cliché "the more things change, the more they stay the same" definitely does not apply — at least for now. The only certainty in tax matters is change. Significant tax overhauls were legislated in 1939, 1954 and 1969; since 1969, with increasing frequency, major tax reform measures have been enacted at a rate of about one every two years. Two years from now, there will be a new occupant of 1600 Pennsylvania Avenue; the potential for further change is strong.

The original federal income tax, legalized by the ratification of the 16th Amendment to the Constitution in 1913, was a straightforward revenue-raising effort that metamorphosed into a cornucopia of exemptions, deductions and exclusions. There can be little doubt that the streamlining of the tax code last year will soon feel pressure from various lobbyists to return some of those benefits.

"I don't see any slowdown in the tinkering with the law that's going on right now," says Worsham, who points to several areas he believes are likely to be amended.

"First, I think the 28 percent top rate will be increased to something in the low- to mid-30's level. Twenty-eight percent is too low to raise the money the government will need to deal with the budget deficit."

Many observers, including Worsham, believe that intense lobbying efforts by the real estate industry will result in changes beneficial to that group.

"Once the tax law is fully phased in," he says, "losses from rental real estate, for example, will be considered passive losses and they will only be deductible to the extent that you've got passive income from similar activities."

The new law virtually abandons progressivity while attempting to spread the tax burden more equitably. More importantly, it promotes a trend toward economic (income-producing) investment rather than tax-oriented investment.

Real estate developers and syndicators will be particularly stung by that provision, Worsham says, and "Congress will hopefully see the negative impact on the economy and change the law."

Also, Worsham says that the favorable treatment of capital gains could easily be restored. "The capital gains mechanisms of the prior law have all been left in place; the only change in this area of the law has been the elimination of the 60 percent exclusion on long-term capital gains. It would only take a stroke of the pen to reinstate the favorable capital gains treatment, and I wouldn't be surprised to see that happen in a few years."



FINANCIAL PLANNERS BRACE THEMSELVES

By Hubert L. Harris Jr.

As the Tax Reform Act of 1986 evolved from a group of Treasury Department proposals made in the fall of 1984, financial planners may have been the most interested and involved observers. Certainly their business was among the most broadly impacted when the bill became law.

Why? In part because the legislation affected every part of a person's financial life. The change in the maximum tax rate, from 50 percent to 28 percent, changed the relative attractiveness of different investments to different investors. Municipal bonds, whose returns are exempt from federal taxation, lost some of their attractiveness compared with taxable Treasury issues. High growth stocks became somewhat less attractive because of changes in the way long-term capital gains are taxed; stocks paying high dividends and high-yield bonds became somewhat more attractive simply because Uncle Sam's share of the income is likely to diminish.

In the same vein, dropping the maximum corporate tax rate will benefit some industries — including service companies which do not make large capital expenditures in depreciable equipment. Basic industries, however, will find their tax bills increased — and this will be reflected in the stock price at some point in 1987 or 1988.

The Tax Reform Act of 1986 also raised a number of urgent tax planning issues, which had to be addressed before the Jan. 1 date of enactment. One of the biggest areas of concern was in long-term capital gains. Prior to Dec. 31, 1986, investors received a 60 percent exclusion on profits from the sales of stocks, bonds, real estate or other investments. The tax savings could be significant. An investor in the 50 percent tax bracket, for example, could sell stock for a \$100,000



Hubert L. Harris Jr.

profit and only have to pay taxes on \$40,000 — his \$20,000 tax payment would amount to an effective tax rate of just 20 percent. For those in the 40 percent bracket, the effective long-term rate was just 16 percent. The new tax bill eliminated that exclusion, which means that most investment-oriented taxpayers will be taxed at the top 28 percent rate in 1988, and at anywhere from 28 percent to 36.5 percent this year.

Does that mean an investor should have sold his stocks and taken his profits before Dec. 31? Or would it make more sense to hold onto the stock through 1987 and 1988, and defer taxes for several years before payment? These questions have caused a number of planners to re-examine their view of the stock market over the next four years, to calculate the time value of money under different interest rate scenarios, and to help clients clarify their short- and long-term investment goals.

Another area of change will be in limited partnerships — that is, in investment vehicles which avoid the double taxation associated with the corporate structure and stock investments. Under the old tax code, it was possible for financial planners to offer tax relief simply by adjusting the client's portfolio mix between investments that offered depreciation and interest write-offs, and such income-producing investments as bonds or high-dividend stocks. The new tax law divides a taxpayer's income (and losses) into three "baskets": one represents salary income, another includes dividend and interest income, while the third is reserved for distributions and losses from "passive" limited partnership activity. Financial planners can no longer help a client offset "portfolio" or "salary" income with "passive" investments designed to generate losses in the early years, and return capital gains or profits in later years.

In addition, planners will have to work

harder to put money away on a tax-free basis for their clients' retirement years. The most widely publicized change is the limitation on Individual Retirement Account contributions for middle- to upper-income taxpayers who already have some kind of pension arrangement at their place of employment. However, there are other, less well-known restrictions. High-income executives can no longer put a maximum of \$30,000 into their 401(k) and 403(b) plans; the maximums are now \$7,000 and \$9,500, respectively. As an alternative, they will be looking harder at the insurance industry's annuity products — particularly variable annuities, which invest in stocks, real estate and other areas with high appreciation potential.

In sum, the changes are too large to be categorized; they affect the entire spectrum of investments, tax planning, income deferral and income shifting and, ultimately, all the various ways that Americans save, invest and work toward their financial goals. The task for the nation's estimated 50,000 financial planning professionals is, first, to help their approximately 4.3 million clients avoid the inevitable problems that arise when something as large as the American economy shifts gears in all sectors at once. Second, they will be actively looking for tax planning and investment opportunities during the two-year changeover. And perhaps most importantly, they will be helping investors in all parts of the economy to cope with and understand the way their financial lives have changed, now and in the future.

Hubert L. Harris Jr. is president of the International Association for Financial Planning, headquartered in Atlanta. A 1965 industrial management graduate, Harris also served as assistant director for Legislative Affairs in the Office of Management and Budget during the Carter Administration.

Living Beyond Our Means



Margaret Barrett

Dr. W. Carl Biven

During his 28 years as a professor of economics at Georgia Tech, Dr. W. Carl Biven has taken the long view and overview of economics, with particular interest in macroeconomics and problems of national economic policy. He has been awarded the Industrial Management Honor Society Outstanding Teacher Award three times, the Georgia Tech Outstanding Teacher Award, 1967; and the George Griffin Outstanding Faculty Member Trophy, 1968. He was named an honorary alumnus by the Georgia Tech Alumni Association in 1978, and is an elected member of ANAK and Omicron Delta Kappa honoraries. A native of Louisville, Ky., Biven received his BA in philosophy from St. Mary's College, Ky., and his MA and Ph.D. in economics from Saint Louis University. He is the author of *An Introduction to Economics* (Columbus: Charles E. Merrill Books, Inc., 1970) and editor of *Readings in Economics* (Columbus: Charles E. Merrill Publishing Company, 1970). He is co-author with William Schaffer of *The Impact of Georgia Tech: Money, People and Ideas*, 1978. Last year Biven wrote an article about the federal deficit for *MGToday*, published quarterly by the Management College. In this interview, Biven looks at recent events and the impact of the federal deficit.

Just how big of a problem is the federal deficit of recent years?

It is a serious matter. By now most Americans are at least roughly familiar with the disturbing facts about the budget. The federal deficit, recent past and near future, is in the \$200 billion range. As a proportion of gross national product (GNP), a measure of the nation's annual output, the deficit is almost three times the average for the period 1946-1980.

According to current projections, the total national debt — the accumulated deficits of the past — will more than double over the years of Mr. Reagan's presidency, from \$1 trillion to over \$2 trillion. We will have accumulated as much debt over this eight-year period as we did over the previous two centuries.

The interest charges on the debt have increased from 7 percent of the budget in 1976 to 14 percent in the 1986 fiscal year.

For one who grew up schooled in more conventional ideas of public finance, the budget world of the 1980s is as disorienting as the 'fun house' of an amusement park.

How did the country get into this budgetary problem?

There are three factors that have contributed to the deficit crisis. In 1981 Congress passed one of the nation's largest tax cuts and, at the same time, initiated the largest increase in defense spending in peacetime history. Add to these actions the inability to cut other parts of the budget to make up for the increased outlays and reduced revenue. With less revenue and more spending, the budget deficit mushroomed.

Precisely what are the effects of the deficit? Is there cause for concern?

Most business and academic economists think deficits of the size we have been running should be a matter of concern. The major problems are long-run in their impact. In the short-run, the deficit is highly stimulative as the government spends more than it takes out in the form of taxes. In 1983, the first year

of recovery from the 1981-82 recession, the total federal debt expanded 21 percent compared to the 8 percent average for the first-year expansions since World War II. It is not surprising that 1983 was a good year and 1984 was the best since the 1950s.

The long-run is another matter. The first long-term effect of repeated deficits is that they retard the rate of economic growth — the long-term increase in the capacity of the economy to produce goods and services, one of the most important forces that drives modern societies. When the government is running huge deficits, it goes to the market for financing and, to use the common expression, 'crowds out' the private sector for funds and exerts upward pressure on interest rates. The deficit crowds out investment in new plants and equipment and more-efficient production methods.

Higher interest rates cause the deficit to have an international impact. Higher interest rates have attracted foreign funds. In the last couple of years, as much as 20 percent of the deficit has been financed by foreigners. The crowd-out was not as bad as it could have been had there not been this inflow of foreign funds, but a consequence is that the U.S. has become a debtor nation for the first time since World War I. The debt owed to foreigners is greater than the foreign debt owed to the U.S. This debt will have to be serviced in the future and payments will generate dollar claims against American output. There is some point at which they are going to want to get payment back in the form of real goods and services, which means that the next generation is going to have a lower standard of living than it would have had because of this debt we have accumulated.

The high interest rates also have resulted in an unfavorable balance of trade. As high interest rates attracted an inflow of foreign funds there was a bidding up of the value of the dollar as holders of pounds, marks and francs sought dollars to buy U.S. interest-bearing financial assets. The higher value of the dollar made U.S. goods more expensive to foreign customers and foreign

The national debt has more than doubled. We will have accumulated as much debt over this eight-year period as we did over the previous two centuries.

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goods cheaper to American buyers. Imports increased relative to exports, and the U.S. experienced its largest trade deficit in history.

If you look at the economy for the last four years, we have been in expansion. But one thing about this expansion is that it has had a dual personality. Some industries have done badly and some have done well. This unevenness is related to the international trade problem. Hard goods — manufactured products — trade in the international market more than services. It is clear that steel, automobiles, computers, microelectronic products, textiles and agricultural products are among those that have felt the brunt of the expensive dollar. Some industries have lost a large number of jobs because of foreign competition, and some of those jobs, it is commonly said, may not be gained back.

The dollar has recently been declining in value compared to other nations' currencies, has it not?

Yes, it has been depreciating for about the last two years and this should help to reduce the size of the foreign trade deficit.

But the benefit has been slow in coming.

Yes. Part of this delay was expected. There is usually a lag in the effect of a currency realignment on trade patterns. Time is required for contract commitments to expire and for new market options resulting from international price changes to be explored. But the adjustment process is lasting longer than was generally expected and I think for two reasons.

First, foreign competitors have been absorbing part of the effect of the rise in the international price of their goods relative to American goods by cutting their profit margins. Sooner or later the increased competitiveness of American goods due to the fall in the value of the dollar will begin to be felt. The Japanese have already felt the impact in a major way.

But there is a second reason for the delay in trade adjustment. The fall in the value of the dollar has been uneven across foreign currencies. The basic over-evaluation of the dollar relative to the Japanese and European currencies has been corrected. In the last two years the dollar declined about 45 percent against the yen and German mark and by about 35 percent against other European currencies. But it has fallen by only a small

amount relative to other currencies which have tracked the downward movement of the dollar. The dollar has about the same value relative to the Canadian dollar and the currencies of the nations along the rim of the Pacific Basin like South Korea, Hong Kong, and Singapore. It has actually increased in value in terms of the currencies of Mexico, Brazil, and Venezuela. These countries against whose currencies the dollar has not depreciated have more impact on the sales of some U.S. industries than do Japan and Western Europe.

Why haven't we done more as a nation to correct the deficit? Why haven't we, for example, cut spending?

The answer is, I think, relatively straightforward.

To make a contribution to lowering the deficit, a budget item must have two characteristics: it must be large enough to make a difference and it must not involve fixed commitments. When most voters think of budget cutting, they think of welfare programs. The fact is that all of the programs aimed at the poor make up about 7 percent of the total budget. There are not enough dollars there to make the key difference. It is also rather widely conceded that most of the cuts that could be made in these programs were made in 1981. The programs involving large amounts of dollars — defense, interest payments, Medicare, Social Security and federal retirement programs — either involved fixed commitments or have strong support by some segment of the electorate. Cutting the government budget is difficult for the same reason that cutting the family budget is difficult. The things that would make a difference are not controllable, or they have been assigned a priority that makes them painful to reduce.

An alternative to cutting spending, of course, is increasing taxes. This option has been taken off the agenda by a popular president and is not, presumably, appealing to the general electorate.

THE DEBT DECADE

By Dr. Marilu McCarty

Can your family's income support debt of \$100,000? That is the total of government, business and personal debt in the United States today per household. (If you blanched at that figure, perhaps you'll feel better knowing that the nation's assets average almost \$200,000 per household.)

The 1980s may yet become known as the "Debt Decade." Since 1980, the nominal growth of gross national product (GNP) has averaged 8.6 percent annually, while federal and local government debt has grown 14.4 percent, business debt 9.7 percent, and personal debt 9.4 percent. Total U.S. debt amounts to about \$6 trillion, and interest payments of \$600 billion constitute about 16 percent of GNP. Household interest expenses have risen to almost 10 percent of disposable personal income, up from less than 5 percent in 1970, and total household debt stands at 83 percent of disposable personal income. Mortgage delinquency rates have risen steadily, as have "walk-aways." The business failure rate has soared, and the severity of the farm debt crisis needs no comment.

A contributing factor to the fast growth of debt has been deregulation of financial institutions. Freed to compete for a variety of loans at unregulated interest rates, banks and S&Ls have advertised and pushed their loans to the point where marginal borrowers could be accommodated. Optimists say that is just fine. It demonstrates the fullest development of U.S. capital markets, and it represents increasing efficiency in the allocation of financial resources. Efficiency recognizes risk and expects that some loans will not be profitable. Moreover, increased lending is necessary to accommodate baby boomers' high level of expenditures for homes, furnishings, autos,



recreational equipment, and education. Most young families have two wage earners, and their expenditures will fuel expansion in industry and stimulate further income growth.

Pessimists are not so sure. They worry about the nation's apparent attempt to maintain a no-longer-affordable life-style. The increase in debt comes at a time when *real* interest rates are at an historic high. (Real interest rates are the difference between the quoted rate and the rate of inflation.) High real-interest rates make the burden of debt repayment especially heavy. Moreover, much of the nation's debt is hidden in the growing markets for such exotic financial instruments as futures, options, real estate tax shelters, interest-rate swaps and bank lines of credit (which alone amount to almost a trillion dollars at the nation's 15 largest banks).

Many of the new financial instruments were created to help corporations reduce their vulnerability to swings in interest rates and exchange rates. Their purpose was to make future cash flows more predictable. Along with the reduction in risk, however, may have come a false sense of

security. Any financial instrument that allows one individual to lock in a fixed interest rate requires another individual to absorb the risk. The high level of leverage in such instruments is another source of worry. A stock index future can be bought for as little as 6 percent down and used as collateral for other purchases, piling leverage on top of leverage.

Junk bonds (with \$30 billion currently outstanding) are other potential sources of loss and financial crisis. In the past ten years, the number of AAA-rated industrial and utility corporations has dropped by half. Business failure rates have been higher in the 1980s than in 1932, and more banks have failed thus far in the 1980s than the entire four decades previously.

Many new financial instruments are "securitized": they are packages of mortgages, car loans, or commercial loans that are sold as negotiable securities entitling the holder to principal and interest from the underlying loans. When loans are parceled out in this way, it becomes increasingly doubtful whether anyone will be able to monitor carefully the performance of the borrower. Variable rates on loans complicate the process, shifting the entire burden of interest rate changes to the borrower and making default more likely.

Much of the increase in corporate debt has been for purposes not generally described as "productive." An example is the proliferation of corporate mergers, acquisitions, and leveraged buy-outs, amounting to \$140 billion in 1984 alone. Mergers have the effect of transferring the ownership of existing assets rather than creating new assets. In fact, while mergers and acquisitions have been increasing, growth in productivity has lagged at 1.3 percent annually throughout the 1980s.

Contributing to financial instability has been the expansion of computer technology for making financial transfers. As inflation has diminished, profit margins have shrunk, making fast turnover essential for profitability. Fast turnover focuses attention on market risk (small changes in rates) rather than credit risk (the ultimate borrower's ability to pay). Very large sums ride on small changes in rates on large-volume transactions, and the potential for loss is enormous.

The nation's abnormally high debt-to-GNP ratio can come down in either of three ways. The most pleasant way would be through increased economic growth, with continually rising stock prices that enable firms to issue more stock to pay off their debts. Less pleasant would be rampant inflation, which would increase nominal income and output, so that fixed debt obligations would be easier to handle. Least pleasant of all would be a crippling recession that forces business and consumers to reduce their borrowing.

A financial crisis would do more damage than just damage the affected households and business firms. It would severely harm the nation's financial system, destroying the credibility of financial intermediaries and blocking the flow of capital for years to come.

Growing concerns about financial instability have led some legislators to favor new regulations to moderate tendencies toward increased leverage in the economy. Recommendations include changes in the taxability of dividends, changes in the system of deposit insurance, and increased government supervision of the government securities market.

Dr. Marilu McCarty is assistant dean and associate professor in the College of Management. This article is a revision of an article which appeared in the Spring 1986 issue of MGToday, a publication of the College of Management.

What about the Gramm-Rudman bill which requires a balanced budget by 1991?

The original Gramm-Rudman bill passed by Congress had two parts. One set the target of balancing the budget by 1991. The other part is a fascinating piece of legislation designed to break the budget gridlock in which Congress and the Administration found themselves trapped. It required an automatic across-the-board cut in various programs if Congress failed to hit the mandated annual reduction targets. The U.S. Supreme Court declared the automatic provision of the act to be unconstitutional because the mechanics of administering the act violated the constitutional separation of the executive and legislative branches.

The congressional intent of balancing the budget announced in the act remains. Whether or not this target is met is, of course, yet to be seen. The budget presented by the president at the start of this session of Congress does conform to this year's Gramm-Rudman target, but the result is obtained by sale of government property, a one-time source of revenue, and by an overly optimistic forecast of economic growth and federal revenue for the fiscal year. What Congress does with the budget is yet to be seen.

Will there be a tax increase to reduce the budget?

Forecasting political decisions is a little out of my line, but I'll make my guess. There seems to be a national consensus that something has to be done. The polls I have seen have shown repeatedly that the American people are very concerned about the deficit. Obviously, to balance the budget we have to cut back spending or raise taxes or some combination of the two. The people decide through their elected representatives what they want. If the public wants more in the way of government than current revenues can cover, then taxes have to be raised. It is a political decision. What will this choice be? It seems to me that the large federal programs have such a strong constituency that it is going to be very difficult to cut back spending enough to balance the budget. Some tax increase seems to me likely.

I add one final point. I see nothing wrong with missing the Gramm-Rudman targets by some amount. The 1991 target date may not only be unrealistic, but also require too rapid an adjustment in terms of the side effects. What is needed is a substantial and believable movement in the direction of budget discipline. That seems to me to be an achievable goal.

To balance the budget we have to cut back spending or raise taxes or some combination of the two.



AUTHORITY

Jim Williams

AUTHORITY

How to Get It

How to Use It

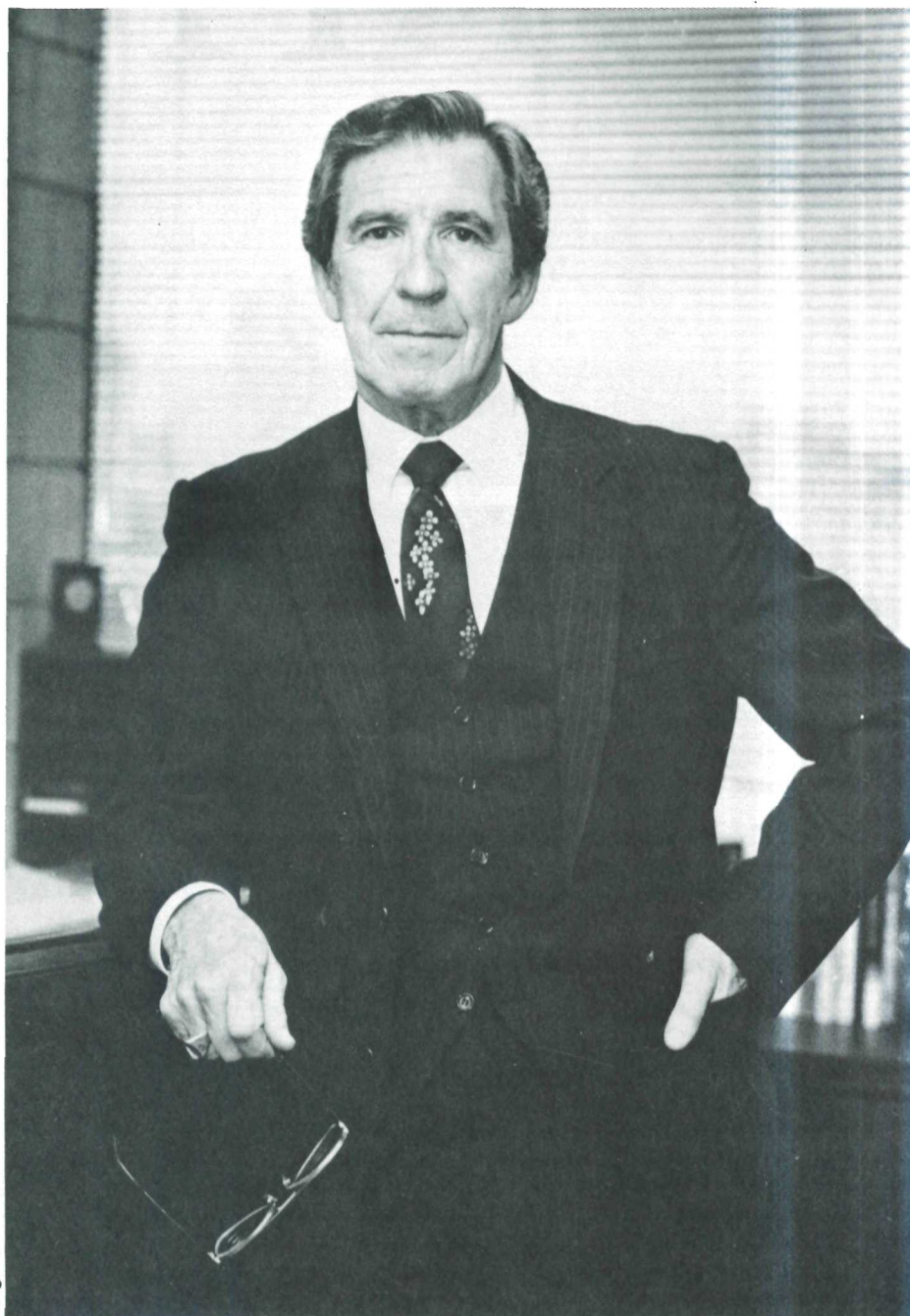
How to Lose It

By Dr. Robert W. Carney

The absence of authority is anarchy. Since the end of World War II our laws have become looser. There has been a continuing breakdown of the family through a lack of parental discipline and an increasing divorce rate. Although there has been an increase in the numbers of religion, there has been a decrease in the adherence to church-imposed rules that guide us in our moral behavior. When we believe in an authority greater than self — such as a spiritual God — we have a built-in belief in the authority of our parents, the authority of society over certain matters, the authority of teachers, the authority of our employers. Without that belief in a power greater than self, the authority system itself begins to break down.

Certainly there has been a decrease in the work ethic and an increased questioning of the boss's right to use authority with employees. The rights of students over their teachers and the rights of criminals over society have also increased.

Many fear that with increasing rights of minority viewpoints in this country, the increasing rights of the individual over society as a whole (which is what anarchy is all about), we may be going down the same path as the Roman Empire.



Margaret Barrett

Dr. Robert W. Carney

If Japanese managers have better human relations with their employees than we do in the United States, it is not because of quality circles, bottom-up management and consensus decision making — those are myths. What the Japanese do have is a better disciplined group of employees. Children wear uniforms in the public school system — itself a sign of discipline. They go to school five-and-a-half days a week and have only a six-week vacation in the summertime. All workers also wear uniforms and work a five-and-a-half- or six-day week with no overtime. Although the government stipulates 20 days of vacation per year, most workers take only half of that. Managers in Japan are not insulted by the term “workaholic.” They wear the label proudly and the wives lose face if their husbands come home before 7:30 p.m. Hard work and authority go hand-in-hand in Japan.

When hiring from the colleges in Japan, many corporations give the potential employee a test, one part of which calls for the candidate to write an essay about his parents. If there is any indication of disrespect, the candidate will not be employed.

When you see Japanese men flying from California to Japan, as I do twice each year, or see their families greet them at the airport, you also see that they maintain a dress code of neatness. The men wear white shirts, ties and suit coats. This is indicative of discipline and of an authority system that works.

In Japan, there are seven forms of the pronoun “I,” ranging from the most superior to the least superior. The lowest form of the pronoun “I” is the feminine “I,” and male employees must use the feminine “I” in addressing their boss, even in a social situation.

The hippies did not last long as a group in this country and I think I know why: They never established a system of structure and authority. No society, nor any part of a society, from the street corner gang, to the family, to the country itself, can exist for long without a system of structure and authority. I am not talking about a tyrannical system, but a fair system of structure and authority. The Amish have lasted from the beginning of this great country, different as they are from the rest of us. They dress different,

their customs are different, but they have lasted, in part, because of their authority system.

Hardwick and Landuyt state it well in their book, *Administrative Strategy*. "Power in the group is the ability to effect obedience. It can be defined in less harsh terms as the capacity to win compliance, to obtain followership, or to impose the will. Regardless of the niceties of definition, power is absolutely essential to achieve coordinated results. Unless power is lodged in the hands of some, and not all, within the enterprise, only disaster can follow. Individual differences are so great that spontaneous and comprehensive cooperation toward a common goal will rarely, if ever, take place. This is a truism."

Former pro football great Fran Tarkenton, chairman of the board of his own well-known consulting firm and who has a degree in business administration from the University of Georgia, wrote in an article in Delta's *Sky* magazine: "If productivity is going to begin to increase in the United States, just to match the level of productivity increases being achieved in other industrialized countries, I feel there will have to be a change in the culture of management. Managers will have to reassert their obligation to manage and regain those rights to control the rewards and punishments that are available in the work place. If they fail to regain this control, I feel there is little likelihood that the rate of productivity increase will be improved."

Another football great — Tom Landry — calls discipline the most important part of motivation. Just because people today have different values and motivations, the Dallas Cowboys' head coach doesn't believe that discipline isn't as important as in the past. In fact, he calls discipline the most important part of motivation. "This country is organized no differently than a football team," he declares. "Or a business, for that matter. Freedom in each is built on some basic parameters of discipline, competition and paying the price. Without boundaries, you have a breakdown of the individual, then the society and then chaos. With boundaries, people are happy."

Finally, to quote two more authorities, both psychologists, David McClelland and David Burnam, from their article, "Good Guys Make Bum Bosses," in *Psychology Today* magazine: "In our search for the key to executive personality, we have found that effective managers share a striking characteristic — the need for power. This motive, a basic

cent of his games to establish his 314 wins. By the end of his coaching career, Bear Bryant had won 323 games with a 79.6 percent win record.

When Terry Fox took over the moribund International Breweries and changed it into the highly successful Iroquois Brand Foods, he didn't play human relations counselor. Rather, he fired a lot

One of our fundamental problems today is thinking that we can teach managers how to manage in the classroom, teach parents how to raise children, and teach teachers how to manage students by following the suggestions of human relationists and psychologists who generally make authority a scapegoat.

desire to influence and lead others, drives able executives in many different lines of work....

"...We worked first with sales departments, dividing them evenly between those with above-average and those with below-average sales. Only 20 percent of the better half were run by managers with a higher need for affiliation than for power.... So power managers ran 80 percent of the best, only 10 percent of the worst.

"In other departments (design, development, production) we found the same link between the manager's drive and the department's performance.... Power managers ran 73 percent of the good ones, only 22 percent of the weak ones."

Certainly the all-time winningest major college football coach, Bear Bryant, would hardly be known as the human relations type of coach. Many have referred to him as an autocratic "S.O.B." Yet he did in 37 seasons what it took Alonzo Stagg 57 seasons to do — win 314 football games. But while Alonzo Stagg won only 61 percent of his games, the Bear won more than 78.1 per-

cent of his games to establish his 314 wins. By the end of his coaching career, Bear Bryant had won 323 games with a 79.6 percent win record.

of people and told some of his old-line managers, "I'm boss and we're going to do it. I'm responsible for the results, so you will have to follow my directions or go somewhere else."

A thousand more examples of authoritative management could be cited. One wonders, then, why almost all of the literature used in training programs supports what we have come to know as the human relations approach. In my view, human relations management should mean understanding people well enough that you know what course of action to take: change a job assignment, reprimand, follow up, listen, not listen, fire or promote, give a big pay raise, a small pay raise or none at all. It does not mean treating them according to the gospel of the human relationists and psychologists. I submit that you cannot learn how to manage people effectively in the classroom. You can only learn it through experience that is profitable.

It is not true that authoritative management has gone by the wayside. Most good managers still know how to

exercise authority effectively and apologize to no one for doing so. On testing managers as to their management style using the University of Chicago's Industrial Relation Center's leadership profile of autocratic, bureaucratic, idiosyncratic or democratic management styles, we found that over 80 percent of all middle and top management people scored above the 50th percentile on the authoritarian, rather than on the human relations, side of the scale. If that is what your managers actually score, then maybe we ought to realize that the ability to use authority effectively is an essential ingredient of good management. Instead, many human relations training programs take these managers who score high on the authoritarian end of the scale and try to change the very style that has made them successful.

Authority as a Management Style

A lot of people still manage with authority and apologize to no one for it. They are good and effective managers. We have many coaches in baseball, football and basketball who are "tough as hell" and win year after year — Joe Paterno, Tom Landry, Don Shula, the late Bear Bryant, the late Vince Lombardi and many others. For every nice guy, like Bobby Dodd of the Georgia Tech Yellow Jackets, you will find another nine or ten who are known as very authoritarian. And don't think for one minute that Coach Dodd didn't use discipline with his players when he needed to!

It is time that we stop apologizing for the use of authority. Parents need to use it with their children. There has been far too much permissiveness. One of our greatest problems with our public school system is the teachers. They do not demand the best of our students. But the teachers cannot exercise authority and demand that homework be in on time — demand that incorrect homework be done over again — because parents will not support them and administrative officials will not support them either. Many studies have shown that the schools with the best results are those with a tough principal who will not put up with any foolishness. Toughness does not exclude

We have heard a lot about Japanese management over the past ten years. It is time to do away with the myths that exist in America about Japanese management that have been heaped upon us by journalists who are bent on putting United States management down at every turn. I have made many trips to Japan and talked to many Japanese managers, but more important than my personal observations are the ideas of some of the executives of McKinsey and Company, which has had consulting offices in Tokyo for many years. Kenichi Ohmae, managing director of the firm's Japan offices, writing in the *McKinsey Quarterly*, states: "Having worked as a consultant with many of Japan's best-known companies, I often wonder where people get the idea that bottom-up decision-making is a hallmark of Japanese corporations. They are wrong."

Ohmae adds that generalizing about Japanese business is a very risky undertaking. He says that thinking about Japanese management in terms of the current stereotypes of Japanese companies is about as sensible as studying Japanese history by watching "Shogun" on TV. It is true that many old Zaibatsu companies with cozy, established positions in the domestic marketplace show a tendency toward bottom-up decision-making. Apart from a few rather obvious cases, the most dynamic Japanese corporations, those whose names are world renowned, are amazingly alike in one respect: They are strongly influenced by a single man or a very small group.

The miraculous post-war growth of Matsushita Electric Industrial Company, with \$10 billion in sales in 1981 and its technological achievements in consumer electronics, is attributable to its founder, Konosuke Takahashi, now in his 88th year. Like Thomas Edison, founder of General Electric, Matsushita began as an earnest inventor almost 50 years ago. With the help of Arataro Takahashi, his lifelong supporter, he created a divisionalized organization with management systems to match. To head up

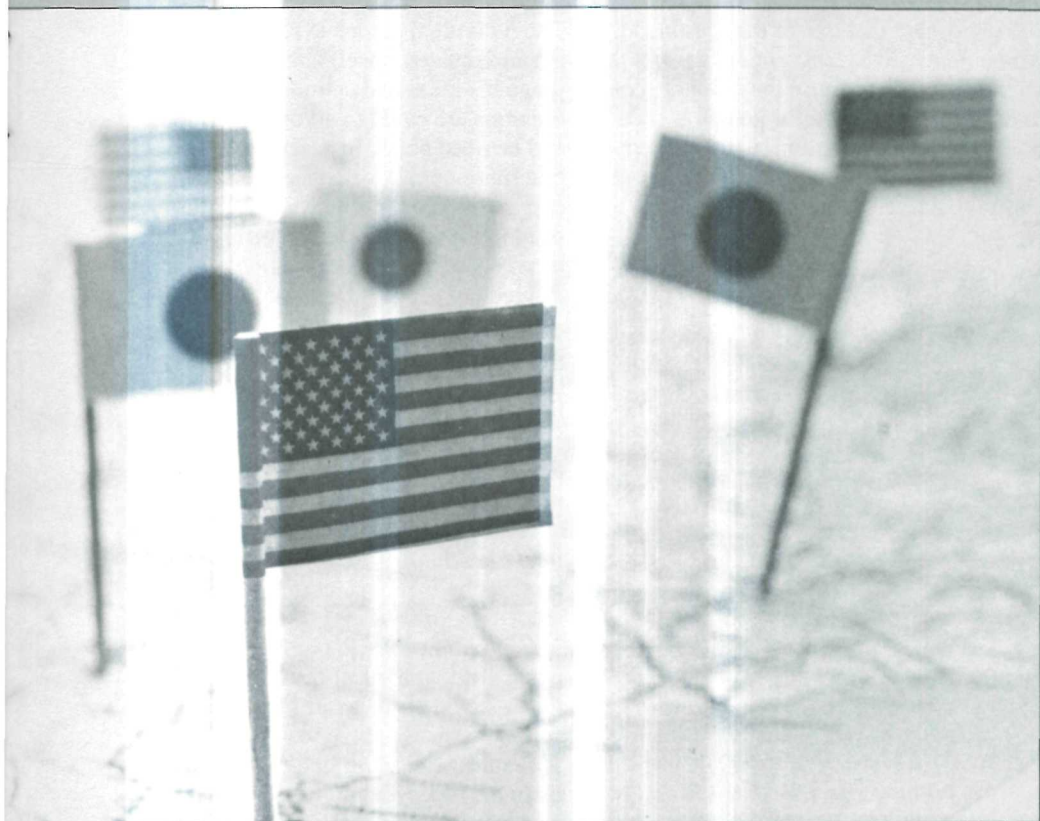
the subsidiaries, which enjoyed considerable autonomy, Matsushita developed many talented entrepreneurs, but he made all the critical decisions himself. Once made, they were scrupulously followed and implemented to perfection. Matsushita's style can hardly be called bottom-up nor is it consensus-based decision-making. Rather, consensus tended to crystalize around his decisions because everyone in the company truly respected his values and judgment, according to Ohmae.

When Matsushita stepped down from the presidency, he first gave the position to his son-in-law, then 12 years later to Tashihiko Yamashita, then the second-lowest ranked of the company's 26 directors — another decision that was obviously not based on consensus. After being chosen as Matsushita's CEO, Yamashita decided to adopt the home video system developed by the company's subsidiary, JVC, against the wishes of his own engineers and scientists. Yamashita explained his thinking with these words: "Man must accept the facts of life in technology." This is not the kind of decision-making that normally comes up from the bottom, nor is it made by consensus.

Sony was founded and run by one man from 1946 to 1971, Masaru Ibuka. Its United States operations were also developed by one man — its current chairman and CEO, Akio Marita. It is well known in Japan that Marita made the decision to go ahead with the Walkman cassette player in the face of opposition from the rest of top management. Marita and his staff may use bottom-up participatory activities so that his thinking will penetrate deep into the corporation, but his decision style is anything but bottom-up.

Why do they work this way in Japan? One of the most important weapons at the disposal of the Japanese CEO is his authority over personnel decisions, according to Ohmae. This enables the president, if he is clever, to influence critical deci-

A CLOSE-UP LOOK AT JAPANESE MANAGEMENT



high-quality products by the time they adopted QC's." ^{1/3}

It is a myth that Japanese quality of output was poor before World War II. Who do you think produced their output during World War II? The Japanese did. They produced their very good, high-quality products long before World War II. They were not allowed to market them in the Western Europe and the United States, the lucrative marketing areas of the world. It was only after World War II that we opened up our doors to Japanese products.

The most comprehensive study of Quality Circles made in the United States was done at the College of Business and Management of Maryland by Robert Wood, Frank Hall and Koya Azumi. During their 1981 visit to Japan to restudy factories for comparison with American cases, two of the authors asked several major corporations if they had QC's and, if so, what evidence they had regarding their effectiveness. Although most of the companies studied had QC's, questions relating to evaluation elicited smiles rather than hard data.

The fact is, there is no company in Japan that keeps hard data on the value of QC's. QC's are just a part of managerial practice in Japan and are maintained regardless of the extent to which they contribute to improvements in productivity.

This is consistent with Robert Cole's impression that only a third of the QC groups in Japan even *seem* to be making some sort of economic contributions to their companies.

"Thus," according to the study, "productivity in Japanese factories is better predicated by market share than by human relations." Available evidence from Japan does not support the strong claim that QC's are a major cause of either productivity or quality. It is a fact that less than ten percent of the Japanese companies in the United States have installed Quality Circle programs.

Gary Meek

sions through the latent fear he can inspire in his subordinates. Also, the ability to shift personnel at his discretion enables him to staff the critical positions with individuals who will make decisions just as he would. In this way, the CEO need not make decisions on a certain issue. He can let the subordinates make the decisions and later hold them responsible.

A factor that tends to ensure that subordinates, faced with critical issues, make appropriate recommendations or decisions is a practice called *Jyoi-Katatsu*: the concept that the mind and will of a boss can and should be understood non-verbally by subordinates. The latter spend a great deal of time trying to divine the real wishes of their bosses so these can be perfectly reflected in the decision-making recommendations they make. Doubtless, that is why, to the West-

erner, Japanese decision-making appears to be bottom-up. Anyone personally involved in this ulcer-causing guessing knows better. As one executive put it, "I am led to make decisions. I don't really make them on my own."

Quality Circles

Professor Hayes, writing in *The Harvard Business Review* (July-August 1981), states: "The famed Quality Circles did not appear as influential as I expected. They were not widely adopted until several years after the Japanese Union of Scientists and Engineers had given it official support in the mid-1960s. Most of the plants I visited had, in fact, experienced many problems with QC's years after their introduction. Moreover, most of the companies I talked to already had enviable reputations for

compassion and understanding, however. Authority does not have to be tyrannical.

I think one of our fundamental problems today is thinking that we can teach managers how to manage in the classroom, teach parents how to raise children, and teach teachers how to manage students by following the suggestions of human relationists and psychologists who

and that is wanting power in the first place."

Trahey said that one of the reasons women have not risen as high as they would like to is because they do not seem to have the same need for power as men do. She adds that it is impossible to move up in management without having the ability to exercise power.

thing." Individualism has become nothing more than selfish self-indulgence.

The individual begins to recognize no norms outside himself against which to judge his ideas and actions. Each man's opinions are equal to all other opinions, and he need not even defend them. Past criteria of collective conscience, logic and tradition go by the way. Progress is even interpreted to mean that anything new is necessarily better. All the past is discredited.

When nothing is sacred, the young question everything and search for values on their own. Pupil-centered education becomes exaggerated until content is emptied. Whether students learn or not is no longer the question. They must enjoy it. If the student's behavior pattern is unsuitable to the school environment, then the school must adjust. The same philosophy is prevalent in the employment situation.

Can you imagine a nightly game of poker without a set of established rules for each and every game? No matter how small the stakes, there would be constant squabbles. Raise the stakes and usher in fistfights and even murder. There is no way to enjoy any game without agreed-upon rules. Those rules are authority. Kids can not enjoy baseball, football, cards or a game of cops and robbers without a set of rules (authority) to guide their behavior.

When teachers no longer can tell children in school what kind of clothes they can wear, to get a haircut, to shave before coming into class Monday morning; when they can't do much about absenteeism or lateness, then they also cannot do much about establishing standards for good performance.

generally make authority a scapegoat.

Since we look at Japanese management so much today, it is interesting to note that only one minor university in Japan offers a master's degree in business administration. None offer an undergraduate degree in business. In Japan they believe you learn management on the job. It is also interesting to note that at the very successful Lincoln Electric Company in Cleveland, Ohio, if you wish to attend a management seminar, you may do so only on your own time and pay for it with your own money. We have tried too much in the United States to structure that which is unstructurable and unstructure that which should be structured. Ineffective managers do not understand authority — how they get it, how to use it effectively or even how they lose it.

Jane Trahey, the highly successful president of a large advertising agency, wrote a book on *Woman and Power* in which she states: "If I have a message for women who want power, it's this — achieving power is a combination of timing, luck and hard work plus one other ingredient that women overlook a lot —

An Authority Crisis in Society

There is a crisis in society today. It is qualitative in nature. The corrosion in human values begins in the home, continues in the school and is perpetuated in society. It follows from the absence of hierarchy, the negation of the concept of authority and the distortion of ideals.

An article in the *Toronto Star* put it this way: "Authority is to the human world what gravity is to the physical world. It orders the relationships between people so that they can exist with ease amongst each other and work together effectively."

The young accept authority so that they may be able to exercise authority. Such acceptance does not create docile people but instills stability, security and order in society. Workers at almost all levels need the same thing.

The range of performance in school and work today is so wide that authority has broken down and the individual becomes confused and frustrated as he seeks order and security. Individualism has been reduced to "doing my own

Sources of Power and Authority

Where do power and authority come from? They come from being right more times than being wrong. They come from budget and resource allocations. Many people think of authority as just the giving of a direct order — a command directed to a subordinate. But that is a naive way of thinking about authority. Authority is all around us in many ways. It comes from friends who are willing to listen and support us. It comes from getting your ducks in a row — getting the facts. It comes from the strategic position that we are representing. It comes from support above or below, regardless of whether one is right or wrong. Authority also comes from a large holding of stock, from patents, from capital lent; banks take on more authority over companies

AUTHORITARIAN MANAGERS ARE AT THE TOP OF BUSINESS

Fortune magazine, in its April 21, 1980, issue and again in its Aug. 6, 1984, edition, published a cover story on the toughest bosses in America. The list reads like a Who's Who in American Industry:

Robert Abboud, chairman and CEO, First Chicago Corp.; Thomas Mellon Evans, chairman and CEO, Crane Corp.; Maurice Greenberg, president and CEO, American International Group; Richard Jacob, chairman and CEO, Dayco; David Mahoney, chairman and CEO, Norton Simon; Alex Massad, executive vice president and CEO, Mobile; Andrall Pearson, president, Pepsico; Don Rumsfeld, president and CEO, G.D. Searle; Robert Stone, executive vice president, Columbia Pictures; William Ylvisaker, chairman and CEO, Gould Company.

The 1984 list included:

John Welch Jr., chairman, General Electric; Richard Snyder, president, Simon and Schuster; Andrew Grove, president, International Corp.; Robert Maloff, chairman, FMC Corp.; Fred Ackman, chairman, Superior Oil; William Klopman, chairman, Burlington Industries; Richard Rosenthal, chairman, Citizens Utilities Co.; Martin Davis, chief executive, Gulf + Western; Joe Smilow, senior executive, Beatrice Cos.; John Johnson, president, Johnson Publishing Co.

Japan was not at any loss in identifying its autocratic managers for *Fortune* magazine in its January 1985 issue. The list represents some of the most aggressive companies in Japan and includes Ichiro Isoda, Sumitomo

Bank; Keizo Saji, Suntory Ltd.; Hisao Tsubouchi, Kurushimadock Group; Isao Nakauchi, Daiei Inc. (Japan's largest retail chain); Yoshiaki Tsutsumi, Seibu Group of Retail Enterprises; Kazuo Inamori, Kyocera Corp. (sophisticated ceramics); Seiueemon Inaba, Fanuc Ltd. (world's largest maker of numerically controlled machinery); Takami Takahashi, Minebea Co. (world's largest manufacturer of miniature ball bearings); Makoto Iida, Secom Co. (private police service).

One has to read the narratives about each of these managers to appreciate how much they are dedicated to the use of authority as a key method of management. Kenichi Ohmae, managing director of McKinsey's Japan offices, points out in *The McKinsey Quarterly*, Spring 1982, that the following companies are run in an autocratic style and not by consensus decision or bottom-up management styles: Matsushita Electric, Honda, Sony, Yamaha, Toyota, Toshiba, Nissan Motors, Canon, Teijin (Japanese textile giant).

An April 1986 article in *Inc.* summed up Japanese management very well in "Theory F" — All those studies on Japanese management overlook the one ingredient that makes it all work: Fear. Why is it that Western journalists have portrayed Japanese management so much more humanistic than American management? I personally think it is because they interpret the surface situation, which is often a facade (over-politeness, etc.) as the real situation and fail to understand the Japanese culture underlying the behavior.

when the company is heavily indebted to the bank. It comes from the value that others see in the function that is being performed.

Authority also comes from the superior knowledge that one has about the organization, about the technology, etc. I think it's time that we in America stop apologizing for a high amount of knowledge about the technology of our businesses. I do not know any really good managers who do not know an awful lot about what they are managing. Tahami Tahahashi, president of Minebea Co. of Japan, the world's largest manufacturer of miniature ball bearings, was dismayed that the top officer of a U.S. ball bearing company didn't know how long it takes to grind a given size bearing. (Answer: four to five seconds for a ball bearing 15 millimeters in diameter). "American managers don't pay enough attention to such details," he maintains. "They waste too much time in meetings, meetings, meetings." Authority also comes from a force of personality — a belief in one's view, a determination to get it done.

Authority also comes from seniority. Just being around longer than others can get some people authority. But it also comes from being new. In new areas such as computers, decision analysis and management science, the young people have gotten much more authority than the old-timers. The importance of the area will also determine authority. Power shifts as problems minimize or maximize and the importance of an area and of an individual shifts as well.

Types of Authority

Basically, there are three types of authority: Simple authority, proof authority and sanction authority.

Asking someone to do something, or making a suggestion that something be done, are examples of simple authority. Such weak authority can be easily circumvented because people will sometimes assume they are being given an option to do something, or that the task itself is not very important.

Proof authority involves including an explanation of why a task needs to be done. If the reasons why are necessary for understanding how to do the work — fine. But if the reasons come across as an



Margaret Barrett

Professor Carney has established a dress code for his classes. When they are conference leaders, the men must wear a shirt, tie and suit coat and the women must wear business dress.

attempt to rationalize authority, the worker sees it as a sign of weakness and begins to argue with it.

Sanction authority means that I tell you to do it. Don't think of sanction authority as, "Do it now or else." Sanction authority merely means, to a secretary for example, "Mary, get your shorthand pad and come in, I have three letters to dictate." Nothing nasty about it, nothing obnoxious about it — a simple statement that is an example of sanction authority. Many managers use this form of authority very effectively. It indicates to the employee that there is no alternative but to follow the instructions.

Shifting of Authority

If a manager cannot or will not exert power and authority, a vacuum is created and someone else above, below or on the

same level moves in to fill the void. If there are too many people doing this, chaos results. Power can move up, down or sideways. A leader must be able to sense the power he possesses and must be able to sense new balances of power that are created in the organization and understand their significance and impact on his organization and on his people. When power and authority shift in an organization, sometimes it is best to tell people and allay their fears. Other times, it is best to let it leak out so as to dawn on them gradually.

Not knowing how much authority one has is not a function of the inability of the boss to tell you; it's a function of one's own stupidity, of not being able to interpret one's boss, one's colleagues, the staff departments, or even one's own people, or the hierarchy or one's own abilities. In other words, not knowing how much authority one has comes from an inability to read the signs.

How to Lose Authority

There are ways to lose power as well. It withers away with age. Power can diminish because of changes in the goals or nature of the business. When colleges change from an emphasis on the functional areas of marketing, finance, etc., to an emphasis on the mathematical approach to decision-making, or to computer technology, a lot of the power changes among people. The same thing happens in companies.

One can also lose power from theft. Somebody steals it. But it's a non-punishable crime! Some people get more budget money and with it comes more power. Sometimes they get more power because they are smarter. Or they have more support from other staff departments or from higher management. As a result, you begin to lose your power. You misuse it or abuse it, and people have ways of fighting this. Revolutions or coups in management take place because people misuse their power. People will only put up with so much and that's the kind of situation where subordinates can often get a boss fired when he misuses his power.

Authority is lost when it is not used, or when others do not allow it to be used. When teachers no longer can tell children in school what kind of clothes they can wear, to get a haircut, to shave before coming into class Monday morning; when they can't do much about absenteeism or lateness, then they also cannot do much about establishing standards for good performance. When managers do not do much about absenteeism, lateness and too-long coffee breaks, it is difficult to exercise authority in more important matters.

I have a dress code for my students. When they are conference leaders, the men must wear a shirt, tie and suit coat and the women must wear business dress. There are no shorts in my class, no t-shirts, no tank shirts. Students cannot come into class barefoot, chew gum, eat or drink beverages, or smoke. They are there to work. It is a formal learning environment and I want a degree of formality of dress. I am thus establishing authority on the very first day of class, which carries forward into more impor-

tant areas later. When I then tell them that papers are due on time, that I will not accept them late, that absences are not accepted, that there will be a grade penalty for an infraction of these rules, I get 99 percent of all my papers handed in on time, and I get about 95 percent perfect attendance. I do not exercise tyranny in the class. I have firm rules and I follow them through with disciplinary action. I let everybody know that when I have standards, I intend to enforce them.

We can indeed have standards. We can get high performance. We can insist on a certain minimum action by people and we can demand the best that people can give us, but we also have to carefully supervise. I give my students more papers to do than other professors because if I give only one or two papers and students make low grades, there is no way for them to make it up. The temptation for a professor is to become lenient. But if I give students four or five papers, I can be more demanding in what I expect of those students. It means more work for me if I am going to require more work from my students.

How to Exercise Authority

Authority can be subtle; it is not just direct commands. For example: Keep the visitor standing while you remain seated. Or ask the person to have a seat, but a little later you stand up and remain standing, talking down to him. A staff department or a boss deliberately doesn't finish a job on time for you; thus, they are exercising their authority over you. Stand in the doorway and talk; don't invite the other person in. Establish a committee and appoint the previous head of the function as a major resource person — without a vote. Keep the door closed so people feel some degree of the power behind the door.

Even such things as the kind of chair you sit in as compared to the kind of chair a subordinate uses establishes authority. Call the employee to your office instead of going over to his office. Take leadership in a group meeting by sitting at the head of the table. Keep your coat on if other take theirs off. Stand up to let other people know the meeting is over. The placement of name cards ahead of the meeting establishes author-

ity. Put your own name as head person at the top of the list for volunteers for something. Dress better than others in the group. These are just a few of the many subtle ways of exercising authority.

Other ways to get authority include protecting bosses and subordinates from outside forces, or going to bat for them. You also get authority when others need

We can indeed have standards.

We can get high performance. We can insist on a certain minimum action by people and we can demand the best that people can give us, but we also have to carefully supervise.

your help and depend upon you, by helping them to get parts, helping them to get space, helping them to get supplies, or support from others. You get authority by giving technical aid, by being a source of knowledge, by finding out everything possible about the organization, about the job, about the work, the benefit structure, the people system — the whole ball of wax.

We need to think more about how we can exercise authority: (1) by getting support from others, (2) by checking things out, (3) by getting the lay of the land, (4) by clearing our decisions, (5) by association with higher-ups, colleagues, or with those who already have importance and authority in the organization. Helping people personally, supporting them, communicating new or right information, taking some of the pressure off them, serving as a buffer or an advocate when appropriate; all of these are ways to get authority.

Dr. Robert W. Carney is professor of management at Georgia Tech. A well-known lecturer and consultant to business and government, Dr. Carney is one of 250 persons throughout the country listed in Dartnell's National Directory of Outstanding Speakers.

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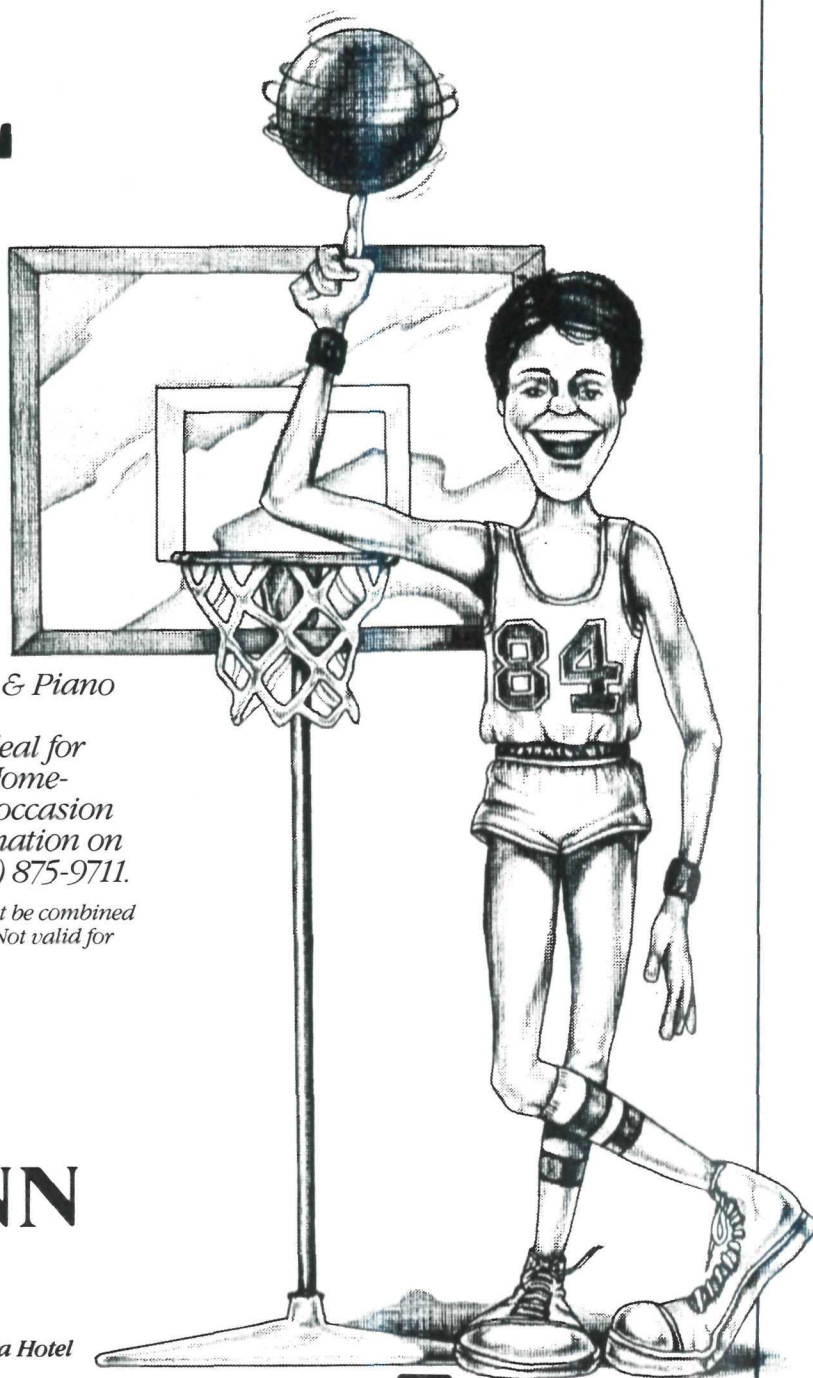


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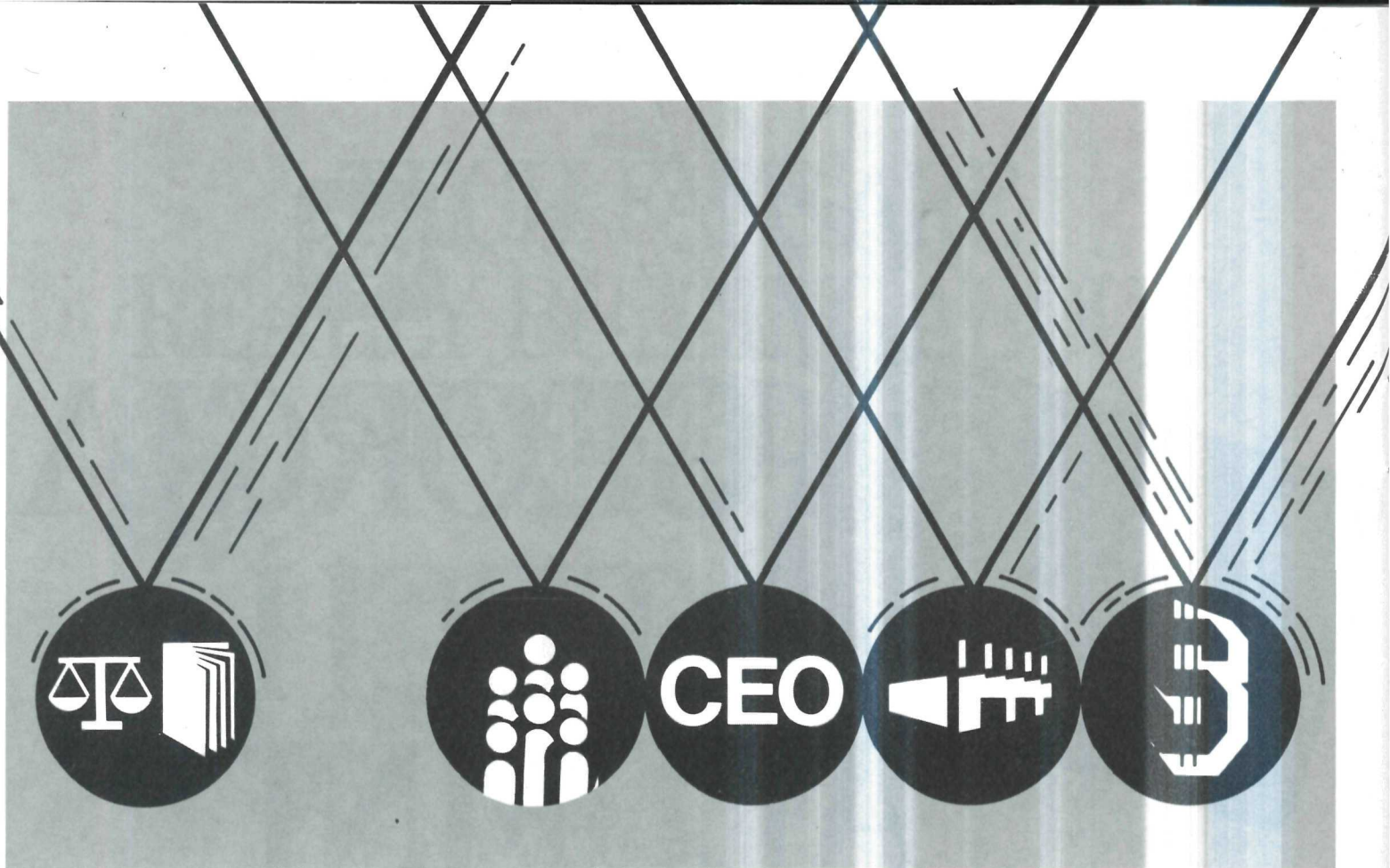
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Crisis Management

Expecting the Unexpected

By Jeff Luck

In the spring of 1985, with much public fanfare, The Coca-Cola Company replaced the best-selling soft drink in history with New Coke. A few months later, in a hail of public controversy, the company re-released its original soft drink as Classic Coke; thus, the other

American institution on North Avenue celebrating its centennial had weathered, and continues to prosper, following the worst corporate crisis in its 100-year history.

The story of New Coke is just one in a parade of examples in *When it Hits the Fan: Managing the Nine Crises of Business*, an overview of corporate crisis written by Gerald C. Meyers. Meyers, formerly the chairman of American

Motors, is the Ford visiting professor of business in the Graduate School of Industrial Administration at Carnegie-Mellon University in Pittsburgh, and president of a crisis management firm. He will be joined in May by a variety of academic and business leaders in a seminar and course on corporate crisis management, sponsored by the Georgia Tech Department of Continuing Education.

"Crises are more frequent and more serious now than they've ever been before," Meyers said recently. "They're also more visible and management is quite unprepared to deal with them."

In fact, since his book was published last year, a long list of corporations has joined those already embroiled in some type of crisis.

"You've got the Audi 5000, the H. Ross Perot crisis with General Motors, Eastern Airlines having been bought out by Texas International and now in a critical situation, Bank of America, USX — the list goes on and on," Meyers stated.

Meyers places corporate crises into nine categories with sources both internal and external and origins both hostile and indifferent. The basis for a crisis can involve money, the public sector, management or labor relations, government interaction or product failure. It may fall into more than one of the nine categories, but, "I have not seen anything yet that has not fallen into one of the categories," Meyers said.

The nine crises, as outlined by Meyers, are:

- **Sudden Market Shift** — Probably best illustrated by the difficulties of the American automakers during the onset of the energy crisis of the 1970s. Until the oil embargo, the public had shunned the small automobile.

- **Product Failure** — According to Meyers, New Coke was released without the proper marketing analysis and, at the very least, has failed to do as well as expected.

- **Top Management Succession** — Usually the inability to provide for a smooth transition at the top.

- **Cash Crisis** — The drain of liquid assets from the company. Chrysler weathered a much publicized crisis in the late '70s.

- **Industrial Relations** — This is almost exclusively related to labor relations.

- **Hostile Takeover** — An attempted takeover of Goodyear recently has left what some have termed "a corporate cripple."

- **Adverse International Events** —

The OPEC oil embargo affected not only the automobile industry but a disparate group of businesses in the United States.

- **Regulation and Deregulation** —

What Meyers terms "the consummate crap game."

- **Public Perception.**

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Johnson and Johnson, the makers of Tylenol, fell victim to a crisis of public perception, according to Meyers' book, when its capsulated product was linked to several cyanide poisonings; however, he adds that, "The Tylenol crisis was also a product-failure crisis. When the packaging is insufficient, that falls in the category of being part of the product. They get a lot of credit for reacting, but the fact is they [Johnson and Johnson] hadn't properly packaged the product."

The Tylenol crisis was the result of a criminal act. In some cases even good intentions resulting from one crisis can precipitate another. In his book, Meyers cites the accident at the Three Mile Island nuclear facility for contributing to the discontinuation of a number of nuclear plants under construction. In its push for safety verification, the Nuclear Regulatory Commission demanded a complete history of construction for plans in progress. Many could not comply and were mothballed or dismantled.

For his graduate course at Carnegie-Mellon, Meyers invites key corporate leaders to lecture on their part in the resolution of corporate upheavals. His students, he said, frequently feel that what was known about the crisis "was nowhere near what needed to be known."



Dr. Leslie G. Callahan

The chief executive officer takes on an entirely different appearance and they feel as though the press had not done the story justice."

"That's no fault of the press," he added. "The press keeps digging, and they should keep digging, but there is no way they can look at it the way an insider looks at it."

The primary reason it is so difficult for managers to deal with a crisis is their indoctrination in optimism. Meyers

believes most managers view a crisis as equivalent to bad management, and as such, they do not want to recognize its existence.

He sees crisis management as analogous to medical treatment: Each crisis is treated in a different way depending on its severity. In the same way, the framework of corporate crisis management can be extrapolated into other areas. "That's one of the major attractions," Meyers said. "Many of the

tools are usable in almost any kind of crisis. Although our research has been almost entirely in the area of business, when we were done we came to the conclusion that much of this thinking is applicable to politics, medicine, journalism, law and the professions in general."

Meyers acknowledges in his book that the military is one organization that has attempted to come to grips with a sudden crisis; however, in recalling his tenure at Pepperill Air Force Base in Newfoundland, he states that it is his belief most of the plans would have been useless in a real emergency.

Dr. Leslie G. Callahan, acting director of the Georgia Tech Institute of Military Education and organizer of the crisis management course and seminar, draws parallels between a corporate crisis and a military crisis and the way in which both organizations should respond.

Callahan differentiates between past attempts at contingency planning and the gist of the crisis management courses.

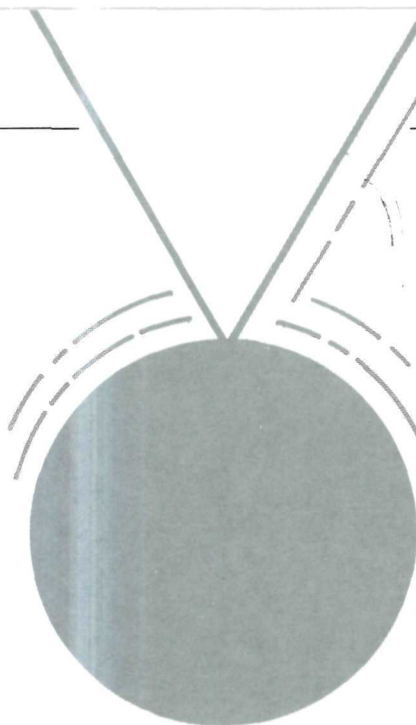
"The predecessor to crisis management was strategic planning, which was blue-skying," he said. "Crisis management is designed to provide a plan, and a method to put it into operation."

A professor emeritus in the School of Industrial and Systems Engineering, Callahan draws on 25 years experience in the military in his perspective on crisis planning.

"Crisis management is analogous to command and control in the military. In a sense, the military has been struggling with command and control, or crisis management; however, most corporations are not organized in that way.

"What this course is really designed for is to answer the question, 'How does a modern business firm organize, staff and control in response to threats, both long and short term?' The short-term ones need the quickest reaction times. The long-term ones call for crisis planning."

While preparing the agenda for the course, Callahan discovered that New York University has a formal Crisis Institute, a non-profit educational and research association. He believes, however, that his course should stress exposure to "the people who have been there."



The predecessor to crisis management was strategic planning, which was blue-skying. Crisis management is designed to provide a plan, and a method to put it into operation.

"Crisis-solving is very much a multidisciplinary problem. For example, engineers are very good at problem-solving. They can provide the theory and the tools. Yet, you need someone who has been through it and can reflect the realities, someone to say what has been left out of the model and what else you need in the theory."

Part of the modern business school, according to Callahan, has been the return to quantitative analysis. One result has been better models and simulations of the corporate environment.

As part of the corporate crisis course, Dr. Richard Teach, associate professor in the Georgia Tech College of Management and moderator for the course, will supervise a crisis simulation during which participants will make decisions in a real-time crisis environment. "It's



Dr. Richard Teach

training, but it's also developing skills and organizations and asking 'What could I have done better?' In most cases, there will be no perfect solution," Callahan said.

Being prepared is the most important aspect of a potential corporate crisis because both Meyers and Callahan agree that despite the often traumatic course of a corporate crisis, the result can be fruitful. Meyers states that a crisis can be beneficial by providing an opportunity to shed waste in management, face lingering problems in the business and develop better systems and strategies for

competition.

"Meyers says that corporate crises have a cleansing effect. You can learn from them and you can be better than you were before," Callahan added.

"It's sort of like an organism that is challenged. If it survives and learns, it will grow stronger."

Jeff Luck, a free-lance writer, also works for the School of Social Sciences and is pursuing a chemistry degree.

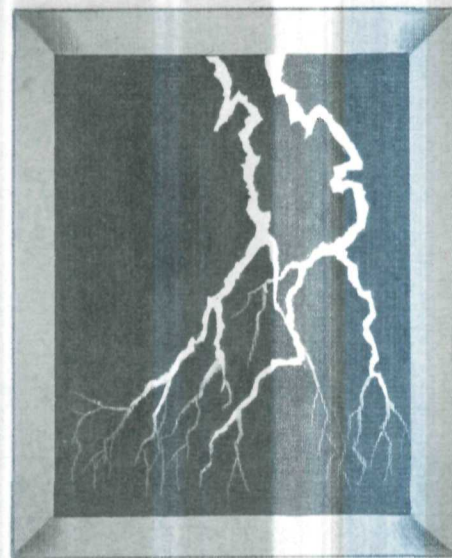


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He that riseth late must trot all day, and shall scarce overtake his business at night; while laziness travels so slowly that poverty soon overtakes him.

BEN FRANKLIN'S FORMULA FOR SUCCESS

By John Dunn

Ben Franklin was an inventor, a scientist, a statesman, and in the popular vernacular of today, an entrepreneur. In light of his phenomenal achievements, it is sometimes almost overlooked that from the first, Franklin was an astute and industrious businessman.

Many of his sayings from "Poor Richard's Almanack" go directly to the heart of practicing good business: "Keep thy shop and thy shop will keep thee," and, "He that riseth late must trot all day, and shall scarce overtake his business at night; while laziness travels so slowly that poverty soon overtakes him. Drive thy business. Let it not drive thee."

Writing as Poor Richard, Franklin also wryly observed, "Creditors have better memories than debtors," "One today is worth two tomorrows," and "If you would know the value of money, go and try to borrow some; he that goes a-borrowing goes a-sorrowing."

Franklin's wit even addressed business ethics. "He that is of the opinion that money will do everything may well be suspected of doing everything for money." Furthermore, Franklin observed, "The use of money is all the advantage there is in having money."

Franklin practiced what he preached. In his business life, he exercised a principle as practical and direct as many of his famous proverbs—work a little harder than your competitors. This business concept was part of the formula for success which he devised as a young man and wrote about as an elder statesman. As with everything else that Franklin undertook, his formula for success was thorough and practical.

At the age of 17, after an uneasy time as an apprentice printer under his brother in Boston, Franklin went to Philadelphia, then the largest city in the colonies, to begin his own career. A few years later, Franklin drafted his guidelines for a successful life. It was not so much a business plan for success, as it was a master plan that incorporated his business philosophy.

In the portion of his autobiography written at the age of 79, Franklin noted that he was still carefully adhering to his resolutions.

The idealistic young Franklin undertook no less of a goal than moral perfection. He wrote in his autobiography, "I wished to live without committing any fault at any time; I would conquer all that either natural inclination, custom, or company might lead me into. As I knew, or thought I knew, what was right and wrong, I did not see why I might not always do the one and avoid the other. But I soon found I had undertaken a task of more difficulty than I had imagined. While my care was employed in guarding against one fault, I was often surprised by another; habit took the advantage of inattention; inclination was sometimes too strong for reason."

Franklin resolved to break undesired habits and acquire "good ones" and he set about working out a method to do so. First, he listed the "virtues, with their precepts" which he desired. The precepts have a quality that can be readily recognized in the sayings of Poor Richard. In all, Franklin established 13 virtues, including chastity, to govern the quality and success of his life. The other 12 guidelines and their precepts are:

Temperance — Eat not to dullness; drink not to elevation.

Silence — Speak not but what may benefit others or yourself; avoid trifling conversation.

Order — Let all your things have their places; let each part of your business have its time.

Resolution — Resolve to perform what you ought; perform without fail what you resolve.

Frugality — Make no expense but to do good to others or yourself; i.e., waste nothing.

Industry — Lose no time; be always employed in something useful; cut off all unnecessary actions.

Sincerity — Use no hurtful deceit; think innocently and justly; and, if you speak, speak accordingly.

Justice — Wrong none by doing injuries, or omitting the benefits that are your duty.

Moderation — Avoid extremes; forbear resenting injuries so much as you think they deserve.

Cleanliness — Tolerate no uncleanness in body, clothes, or habitation.

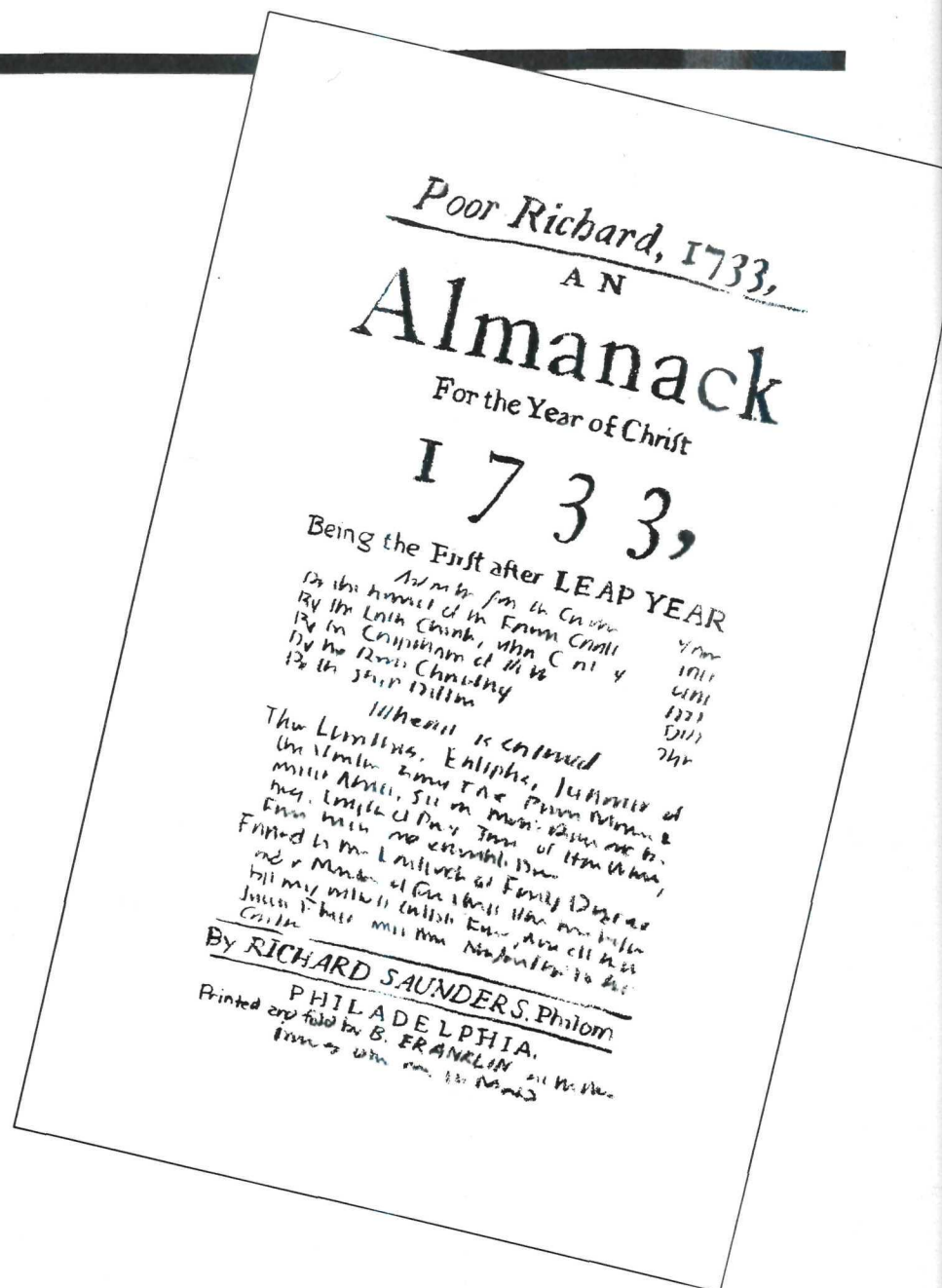
Tranquility — Be not disturbed at trifles, or at accidents common or unavoidable.

Humility — Imitate Jesus and Socrates.

“I determined to give a week’s strict attention to each of the virtues successively. Thus, in the first week, my great guard was to avoid even the least offense against Temperance, leaving the other virtues to their ordinary chance, only marking every evening the faults of the day. Thus, if in the first week I could keep my first line, marked T, clear of spots, I supposed the habit of that virtue so much strengthened, and its opposite weakened, that I might venture extending my attention to include the next, and for the following week keep both lines clear of spots. Proceeding thus to the last, I could go through a course complete in thirteen weeks, and four courses a year. And like him who, having a garden to weed, does not attempt to eradicate all the bad herbs at once, which would exceed his reach and his strength, but works on one of the beds at a time, and, having accomplished the first, proceeds to a second, so I should have, I hoped, the encouraging pleasure of seeing on my pages the progress I made in virtue, by clearing successively my lines of their spots, till in the end, by a number of courses, I should be happy in viewing a clean book....”

"To this little artifice, with the blessing of God," Franklin said he "owed the constant felicity of his life.... To Temperance he ascribes his long-continued health, and what is still left to him of a good constitution; to Industry and Frugality, the early easiness of his circumstances and acquisition of his fortune, with all that knowledge enabled him to be a useful citizen, and obtained for him some degree of reputation among the learned; to Sincerity and Justice, confidence of his country, and the honorable employs it conferred upon him; and to the joint influence of the whole mass of the virtues, even in the imperfect state he was able to acquire them, all that even-

“He that composes himself is wiser than he that composes books.”



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