Consideration of Selected Environmental Factors Which Affect Managerial Decision Making.

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A Dissertation

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Louisiana State University and
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in partial fulfillment of the
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Doctor of Philosophy

in

The Department of Management and Marketing

by
J. Mark Miller
B.S., Florida State University, 1959
M.S., Florida State University, 1961
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# Table of Contents

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I</strong> AN OVERVIEW OF THE STUDY</td>
<td>1</td>
</tr>
<tr>
<td>Background of Problem and Purpose of Study</td>
<td>1</td>
</tr>
<tr>
<td>Background of the Problem</td>
<td>1</td>
</tr>
<tr>
<td>Purposes of the Study</td>
<td>4</td>
</tr>
<tr>
<td>Directions and Boundaries of the Study</td>
<td>4</td>
</tr>
<tr>
<td>Sources and Method of Collecting Data</td>
<td>6</td>
</tr>
<tr>
<td>Definitions of Terms Used Throughout Study</td>
<td>6</td>
</tr>
<tr>
<td>Preview and Order of Approach</td>
<td>8</td>
</tr>
<tr>
<td><strong>II</strong> SOME ASPECTS OF THE LEGAL ENVIRONMENT</td>
<td>12</td>
</tr>
<tr>
<td>Relationship of Law to Business</td>
<td>12</td>
</tr>
<tr>
<td>Sources and Certain Effects of Law Setting</td>
<td></td>
</tr>
<tr>
<td>Environmental Framework</td>
<td>14</td>
</tr>
<tr>
<td>Customs and Common Law</td>
<td>15</td>
</tr>
<tr>
<td>Antitrust Laws</td>
<td>18</td>
</tr>
<tr>
<td>Price Maintenance Laws</td>
<td>37</td>
</tr>
<tr>
<td>Some General Effects of Laws Affecting Business</td>
<td>43</td>
</tr>
<tr>
<td>Labor-Management Relation Laws</td>
<td>45</td>
</tr>
<tr>
<td>III</td>
<td>ENVIRONMENT OF MANAGEMENT-LABOR RELATIONS</td>
</tr>
<tr>
<td>------</td>
<td>----------------------------------------</td>
</tr>
<tr>
<td></td>
<td>Some Union Organizational Influences</td>
</tr>
<tr>
<td></td>
<td>Attitude of Management</td>
</tr>
<tr>
<td></td>
<td>Attitude of Employees</td>
</tr>
<tr>
<td></td>
<td>Attitude of Community</td>
</tr>
<tr>
<td></td>
<td>Conceptual Framework of Power</td>
</tr>
<tr>
<td></td>
<td>Environmental Framework for Bargaining</td>
</tr>
<tr>
<td></td>
<td>Some General Policies Towards Bargaining</td>
</tr>
<tr>
<td></td>
<td>Bargaining Strategy</td>
</tr>
<tr>
<td></td>
<td>Bargaining and Arbitration</td>
</tr>
<tr>
<td></td>
<td>&quot;Unofficial&quot; Union-Management Relations</td>
</tr>
<tr>
<td></td>
<td>Management-Labor Cooperation</td>
</tr>
<tr>
<td></td>
<td>Possible Effects on Firm Continuity</td>
</tr>
<tr>
<td>IV</td>
<td>PUBLIC ATTITUDE AS AN ENVIRONMENTAL FACTOR</td>
</tr>
<tr>
<td></td>
<td>Public Attitude May Affect Decision Making</td>
</tr>
<tr>
<td></td>
<td>General Attitudes</td>
</tr>
<tr>
<td></td>
<td>Some Specific Factors</td>
</tr>
<tr>
<td></td>
<td>What Customers Demand is Important</td>
</tr>
<tr>
<td></td>
<td>The Consumer Movement and its Effect</td>
</tr>
<tr>
<td></td>
<td>The Marketing Concept and Managerial Decisions</td>
</tr>
<tr>
<td></td>
<td>Race Relations and Managerial Decisions</td>
</tr>
<tr>
<td></td>
<td>Employment Opportunities</td>
</tr>
<tr>
<td>CHAPTER</td>
<td>Page</td>
</tr>
<tr>
<td>---------</td>
<td>------</td>
</tr>
<tr>
<td>Service in Privately Owned Business Facilities</td>
<td>167</td>
</tr>
<tr>
<td>V SOCIAL AND CULTURAL ENVIRONMENT</td>
<td>169</td>
</tr>
<tr>
<td>Make-up of In-Plant Environment</td>
<td>169</td>
</tr>
<tr>
<td>The Nature of Needs</td>
<td>172</td>
</tr>
<tr>
<td>Consideration of Social Relationships</td>
<td>176</td>
</tr>
<tr>
<td>Need-Satisfaction Arrangements</td>
<td>181</td>
</tr>
<tr>
<td>Theoretical Approach to Motivation</td>
<td>191</td>
</tr>
<tr>
<td>External Environment and Marketing Decisions</td>
<td>193</td>
</tr>
<tr>
<td>Understanding the Psychology of Consumer Behavior</td>
<td>194</td>
</tr>
<tr>
<td>Social Groups as Determinants of Buying Behavior</td>
<td>204</td>
</tr>
<tr>
<td>Cultural Background Important for Marketing</td>
<td>212</td>
</tr>
<tr>
<td>VI ECONOMIC ENVIRONMENT AND MANAGERIAL DECISION MAKING</td>
<td>220</td>
</tr>
<tr>
<td>General Economic Conditions</td>
<td>221</td>
</tr>
<tr>
<td>General Increase in Demand</td>
<td>221</td>
</tr>
<tr>
<td>General Decrease in Demand</td>
<td>223</td>
</tr>
<tr>
<td>Competitive Factors</td>
<td>236</td>
</tr>
<tr>
<td>Effects on Pricing</td>
<td>237</td>
</tr>
<tr>
<td>Price Leadership</td>
<td>244</td>
</tr>
<tr>
<td>Non-Price Competition</td>
<td>251</td>
</tr>
<tr>
<td>Technological Factors</td>
<td>258</td>
</tr>
</tbody>
</table>
ABSTRACT

Business enterprises exist and operate in an environment which is external and internal to the organization. It is within the composite of the total environment that managers have to make decisions.

The primary purpose of this study was to consider selected environmental factors and some of their effects on managerial decision making, and to show that some of these factors modify the decisions of different managers in various ways. Another purpose was to show that some of the environmental factors which are generally considered controllable or non-controllable, may be partially modifiable.

The environment of government was considered primarily from the effect of the federal laws dealing with antitrust, resale-price maintenance, and labor-management relations. It was shown that some managers complied with the laws, while others ignored them. In many cases, management was not certain if it was violating the laws. It was also shown that managerial action, either through pressure groups, or on an individual basis, was able to modify the legal environment.

The environment of labor-management relations alters managerial decisions in various ways, depending upon the attitudes and power held by the community, labor, or management. The various policies
that managers adopt in bargaining with unions reflect the various
philosophies held by the managers. These philosophies influence
the environment.

Public opinion modifies managerial decisions as managers seek
to build favorable images for their firms. The consumer movement and
the marketing concept have affected decisions as managers became
aware of consumer demands. Managerial decisions have also been
altered by the environment of race relations as Negroes seek equal
employment opportunities and services.

Social and cultural influences are felt by management, both
within the firm and as these influences affect market decisions.
Within the firm, the environment created by the psychological and
social needs influences a manager's decisions. Managers can control
part of the environment as they make available arrangements for need
satisfactions. The social and cultural influences are important in
marketing decisions. Management is concerned with the purchase
motivations of consumers. Managers have sought and used the services
of psychologists, sociologists, and anthropologists to alter these ele-
ments of the environment.

Many factors in the economic climate control managerial decisions.
Most managers would probably agree that they can do nothing about the
economic trends and cycles. They seem to feel that they can determine
their firms' positions relative to the business cycle. Managerial
decisions are affected in various ways by the managers' interpreta-
tions of the business cycle and their anticipation of the behavior of
competitors and customers.

Technological factors of the economic climate influence managerial
decisions as consideration is given to the development and adoption of
technological advancements, and their impact on human behavior.

Many of the environmental factors are interrelated and inter-
dependent. While many of the components change, an environment
is constant. Managers base their decisions on their interpretation of
these factors, and upon the values they assign to them. It is neces-
sary for management to recognize and become familiar with the elements
of the environment in order to make effective decisions.

The conclusion of the study indicates that various environmental
forces affect managerial decision making in different ways, and that
some of the factors generally deemed controllable or non-controllable
are partially modifiable.
CHAPTER I

I. AN OVERVIEW OF THE STUDY

A. Background of Problem and Purpose of Study

1. Background of the Problem

Since the turn of this century, businessmen and writers have become increasingly interested in the study of managerial functions, and the process by which these functions are performed. This process is called decision making. As interest in the managerial process increases, more study is being given to the factors which affect managerial decision making.

During the 1920's Mary Parker Follett began a series of lectures concerning the nature of power, authority, coordination, and other factors which influence a manager's decisions. Miss Follett felt that the law of the situation was the key to making decisions.¹ The situation is composed of the total factors surrounding the decision. Other writers and researchers began also to make contributions to an understanding of managerial functions.

Elton Mayo, through his investigations at the Hawthorne plant of Western Electric during the 1930's, conducted the first major social science experience in business, and probably did more than any other person to instigate the "human relations" approach in industry. As a result of these management became more aware of the importance and role of social groups within a business organization as these affect the efficacy of managerial decisions.

As a result of these and other studies it is seen that one characteristic of the current study of business administration is an interdisciplinary approach to management. From the contributions of management scholars, economists, social and behavioral scientists, and political thought comes the raw material from which new insights into the managerial process are being developed. All the areas of social concern are involved in the study of the decision-making process.

As more effort is directed to a study of the decision-making process, the literature is expanding at an increasing rate. Traditionally, this has not been a unified effort as the various disciplines have made contributions to the study of management thought. Difficult and time consuming are the attempts to trace the literature through the social and scientific fields. Attempts to sift through these writings and to

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synthesize the data have been infrequent and isolated. Each discipline has been going its way independently. Therefore, the total of the contributions is found in widely scattered writings which cut across all social and scientific areas. Consequently, the literature on decision making is a criss-cross of theory and ideas resulting in a "... complex problem of finding true perspectives."³

These many and varied ideas show that there are many influences or forces which affect managerial decision making. The sum of all influences is defined as the environment. Influences are exerted upon the business structure. This structure consists of the various industries, individual business firms, goods and services which are produced and distributed, and the management of the firms. If the nature of managing a business enterprise is to be more fully understood, one must look beyond the business structure to the environment within which a business firm operates.

Businesses then, exist and operate in surroundings which are external and internal to the business structure. Although some of the characteristics of these surroundings may cease to exist or are modified through change, an environment is constant. It is within the composite of the total environment that a manager has to make decisions.

³Paul Wasserman, Decision Making (Ithaca, New York: Graduate School of Business and Public Administration, Cornell University, 1958), p. iv.
Not only must the manager make decisions within this environment, the various environmental factors themselves affect the decisions of managers. However, the decisions of all managers are not affected in the same way. Further, a manager may be able to control, at least partially, some of these factors. Management needs to get a basic understanding of these environmental forces and to correctly interpret them in order to make better decisions.

2. Purposes of the Study

The primary purpose of this study is to consider selected environmental factors and some of their effects on managerial decision making, and to show that some of these factors will affect decisions of different managers in various ways. Another purpose is to show that some of the factors making up the environment which are generally considered either controllable or non-controllable, may be partially controllable. By better understanding these environmental factors, managers should be able to make sounder decisions.

B. Directions and Boundaries of the Study

To facilitate the presentation of this study it is assumed that the environment is pervasive in all managerial decisions. Thus, this study could apply in general to all types of management. However, the approach will be directed to the managers of business enterprises.
Since the study of decision making has an interdisciplinary nature, selected contributions from the fields of sociology, psychology, anthropology, economics, law, and business administration will be included in this study.

Since the factors constituting an environment are many and complex, simply compiling a compendium of these factors would be a gigantic undertaking. For this reason, only selected environmental factors are considered. Environmental factors are so interrelated and interdependent they cannot all be logically separated. For instance, a particular economic climate or condition may cause public opinion to bring pressure on legislative bodies to enact laws which would change employer-employee relationships which, in turn, may have an effect on public opinion. However, for convenience and simplicity, these factors will be looked at individually.

Therefore, this study is limited to consideration of selected environmental factors from government, public opinion, social and cultural influences, labor-management relations, and the economic climate which affect managerial decision making.

The environment of an organism is older than the organism itself. A study of the "first" environment and how it affected decision making would probe the dark annals of the forgotten past. Since an environment is continuous, a study of environmental influences must begin with some arbitrarily chosen time, event, or condition. For
these reasons, the arrangement of subject matter and order of approach were chosen to facilitate this inquiry.

C. Sources and Method of Collecting Data

The background material for this study was researched from secondary sources. Books and periodicals from the areas of psychology, sociology, anthropology, economics, law and general business were chosen for their contributions to an understanding of the decision-making process. Government publications, newspaper articles, and other resources were used where applicable.

D. Definitions of Terms Used Throughout Study

Before any meaningful discussion can take place, key terms used should be defined. Since words mean different things to different people, the words "environment" and "decision making" are defined so that the writer and reader will have a more common understanding of how these particular terms are used in this study.

1. The Word "Environment" Defined: Barnard considers the environment of decisions as having two facets. One is the purpose of the decision, and the other is the social and physical world including the external objects and influences or forces and the circumstances of the moment. The latter facet of the environment consists of "... agglomerations of things in motion, alive; of men and emotions; of physical
laws and social laws; social ideas, norms of actions, of forces and resistances.\textsuperscript{4} Barnard sees the general environment as constant, but changing. Since Barnard included things and external objects as part of the environment, perhaps he saw an internal environment also. Wheeler defines the environment as, \textquotedblright... the total of all things external to business firms and industries which affect their organization and operation.\textquotedblright\textsuperscript{5}

The general definition may be summed up in terms of the one given in \textit{Webster's New Collegiate Dictionary} as \textquotedblright... the aggregate of all the external conditions and influences affecting the life and development of an organism...\textquotedblright. Since a business enterprise is a social organism this definition will hold, in general. For the purpose of this study the last definition will be accepted, with modifications. This is, that the term "internal environment" shall include those influences within the framework of the organization. These include working conditions, work layout, attitudes of the personnel on the job, the organizational relationships that exist and develop, and the labor-management relations as they pertain to the workers.


Thus, as used in this discussion, the environment is the total of all internal and external forces, factors, and influences which affect the operations of the firm. Certain parts of the environment, or environmental factors considered to be sub-environments will be the major concern in this undertaking.

2. Decision and Managerial Decision Making Defined. These terms shall be used in their traditional meanings. A decision has been made when a manager has selected one alternative from among available alternatives. Decision making is the process by which this alternative is chosen.

E. Preview and Order of Approach

Some aspects of the legal environment will be covered first. This environment is important because of its effect on the business organization. Under this topic, consideration will be given to the relationship of law to business, and to the sources and some effects of selected laws. Attention will be given to the major antitrust laws, the Miller-Tydings Act and the McGuire Act in relation to resale price maintenance. The chief labor-management relations laws will be discussed in terms of the emerging recognition of a need for these laws, and what their effects have been on managerial decisions. More specifically, selected federal laws will be considered with reference to state laws for illustrative purposes, when appropriate. The discussion will be extended to
consideration of some effects of government and law on various businesses and on the interpretation of these factors by managers.

The environment of management-labor relations will be covered next. An insight into this environment is important because this environment is affected to a degree beyond any specific law. Labor unions have been accepted as a part of the American society, and the relations within the business organization goes beyond any legal consideration. Under the topic of labor-management relations environment, the attitude of management and employees and the conceptual framework of power will be considered as union organizational influences. Selected factors setting the environmental framework for bargaining will also be covered along with the possible effects of labor-management relations environment on firm continuity and management-labor cooperation.

In the next section attention will be given to some aspects of public attitude as environmental factors. Although law is interpreted to mean public opinion formalized, many aspects of public opinion are not formalized into law. Yet, management has to make decisions in this environment, and these decisions are affected by public opinion and attitude. In addition, customer demands will be considered in terms of the "consumer movement" and the "marketing concept" to see how these influence decisions.
Within the past decade the environment of race relations has changed drastically. Some of the changes have been brought about by legislation, and some by public opinion. Since race relations is an extremely important influence today, consideration of these relations and their effect on managerial decisions will be treated as part of the public opinion environment.

As a fourth environmental factor, the social and cultural influence will be discussed. Attention will be given first to these factors as the internal environment and how they affect a manager's decisions. Elements constituting this environment include the psychological and social needs of the work force. These will be considered in terms of management seeking to establish ways whereby these needs can be fulfilled. The psychological, sociological and cultural environment will then be discussed briefly in terms of their particular significance for market decisions.

The economic climate will be the fifth environmental factor considered. As one aspect of the economic climate, decision making will be treated in terms of general contractionary and expansionary times. It is important for management to recognize such conditions and be able to determine the position of its firm. Further, some effects of competitive factors on price competition and non-price competition will be covered. Technological factors will be considered as they relate to development, adaptability, and consequences on the human factors.
Finally, the controllability of certain environmental factors will be considered to determine whether these factors are controllable, partially controllable, or uncontrollable.

In the summary and conclusions section, the relationship of the environmental factors will be reviewed as well as the idea of a constantly changing environment. The necessity of recognizing, understanding, and placing values on the environmental factors will be viewed as a basis for sound managerial decisions.
CHAPTER II

SOME ASPECTS OF THE LEGAL ENVIRONMENT

A. Relationship of Law to Business

Just as athletic contests could not be played satisfactorily without rules to govern the players, so life in general, and the business world in particular, could not continue satisfactorily without rules to guide and regulate the actions of the people. Law is essential to order, direction, and efficiency. Some system must exist to define and enforce the rights and responsibilities of all members of society and thereby to prevent hopeless confusion.\(^1\) As our culture becomes more complex, this need for law becomes greater. As the complexities extend to the functions of business organizations, the business manager must become more aware of, and sensitive to, the legal environment as a part of the total environment within which the business enterprise exists.

Law can be defined as that body of principles, rules, and precepts that are set up to govern conduct, and the observance of which can be enforced in court. Law is made up of three elements: (1) legislative provisions in force as found in the constitutions, treaties,

statutes and local ordinances; (2) rules adopted by the courts; (3) the
system of legal concepts and traditional legal techniques which form
the basis of judicial action.

Since law is a scheme for social control, it is for the protection
of social interests. It accomplishes its purpose by the recognition of
a capacity in persons to influence the conduct of others. Law also
affords the machinery of the courts and legal procedure to help the
persons with their capacities.

There are many classifications of law, and to try to classify law
into neat categories would make the classes either "all inclusive" or
"too exclusive." For the purpose of this study, law is classified into
the broad areas of private and public law.

(1) Private Law: Private law is concerned with those problems
and relationships which exist between individuals. Private law is
traditionally separated into the law of contracts and the law of torts.
The law of contracts deals with contractual relationships entered into
voluntarily by two or more persons. The law of torts deals with wrongs
committed by one person against the person or property of another.
Although a manager should have a general understanding of private law
to make more intelligent decisions, it is public law which provides a
major portion of the over-all legal environment. It is to this type law
that major attention will be directed.
(2) Public Law: Public law is concerned with the organization of government or to the relationship between individuals (including business firms) and the government or society. The aspects of the legal environment as undertaken in this study will deal with the various sources of law and some effects of these laws on managerial decision making.

B. Sources and Certain Effects of Law Setting Environmental Framework

The law setting the environmental framework within which businesses operate does not flow from only one source. Law may be found in constitutions, statutes, treaties, ordinances, and from decided cases. Constitutional law includes the constitution in force in a particular area. Thus, in each state, two constitutions are in force—the federal constitution and a state constitution. Law also includes the statutes adopted by the legislative bodies. This is called statutory law. Since both the national government and the various state governments have legislative bodies, each person is under two statutory bodies of law.

If a town, county, or other subdivision has the power to adopt statutes and ordinances, then there are three classes of statutes in force in one area.

The judicial system in the United States has established a general priority among the various sources of law. Constitutions prevail over
statutes and statutes usually prevail over common law principles as established by court decisions. It should be remembered that statutes generally have to be interpreted since they deal in generalities. Unlike civil law where laws covering conduct have all been codified, most of the law in force in the United States came from common law.

1. Customs and Common Law

The basis for most of the law in the United States has its source in the common or unwritten law of England. When William the Bastard, Duke of Normandy, invaded England in the year 1066, there was no national systematic body of law. Duke William immediately instituted reforms. In order to unite the country under their rule, Duke William, and later, the Norman kings sent judges into the land to adjudicate the disputes. These early judges had no body of rules to follow; therefore they drew heavily upon the customs, traditions, and the moral standards of the people, as well as their own standard of justice. Thus, common law developed through judicial precedents.²

The common law as the basis for most of the law in the United States is "the general Anglo-American system of legal concepts and the traditional legal techniques which forms the basis of the law of the states

which have adopted it. Common law is to be distinguished from the law of a particular state whether that law is common law or statutory law. Sometimes the law of a particular state will differ from that of other states although all may have the same system of concepts and legal tradition as the basis for their law. There is no federal common law aside from maritime law.

The distinguishing feature of common law is that it developed as a system of law based upon judicial precedents, and its use of the jury to decide on cases of fact. The courts did not actually make the law through their decisions, but merely gave expression to the law as it developed by custom and tradition.

The doctrine of Stare Decisis serves as the foundation of the common law. That is, prior decisions set precedents which subsequent cases relating to the same questions of law generally follow. There does not have to be several decisions accepted as precedents before rules are considered law. Neither will a decision standing alone be considered as a precedent if that decision has stood alone for many years without citation by the courts, or if that "precedent" lacks reason. Further, a precedent in one state will not suffice as the precedent in another state.

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The desire for certainty and predictability gave rise to *stare decisis*. It was expedient to follow precedents. Many legal issues were settled by common law through precedent, and stability was brought into many areas of law. "Individuals were able to act in reliance upon prior decisions with reasonable certainty as to the result of their conduct."\(^5\)

The New England Colonies did not accept the English common law as readily as their sister colonies to the South.\(^6\)

Although Louisiana followed the Roman civil law, all of the other states adopted the common law principles; however, it is not correct to say that all states have the same common law. It is more accurate to say that each state has a separate "body of law," and these bodies of law are all based on the one common law system. In addition to common law, many statutes have been passed in the United States to regulate and guide business decisions. Main statutes within the general classifications of anti-trust laws, so-called "fair-trade or price maintenance" laws and labor-relations laws will be considered in turn.

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2. Antitrust Laws

a. The Background Setting. During feudal times, the church, guilds, and local manorial lords almost completely controlled the economic, social, and political life of the people. Most of the people were tied to the land of their lords. The collapse of the feudal system and this type of localized control came as a result of the Renaissance.

Nationalistic states emerged in Europe around the turn of the sixteenth century. These states were characterized by strong centralized governments and the interests of the states became supreme. To protect these interests, the states built vast military power to maintain political control. During this period of mercantilism, the governments of these states also maintained economic control over the people. Exporting was encouraged to gain gold and other precious metals in order to maintain the armies. Importing was discouraged by high tariffs because it drained the gold and other precious metals of the states. The state determined the amount of production in each industry as well as hours and wages of the workers.

The emphasis was upon the welfare of the state rather than on individual welfare. Thus, it was natural for the state to control the economic and social environment of the people to serve the State's end.

The American colonists were subjected to this type of regulated mercantilism by the central government in England. The colonies were
oppressed by prohibitions and by taxation without representation. England wanted to maintain a strong political and economic control to enrich her coffers at the expense of the colonies. The colonists protested their oppression through the first Continental Congress. These protests were met with further restrictions that virtually wiped out commerce in the colonies. The colonists, in rejecting the idea that the state was supreme, revolted in order to maintain that the individual was supreme.  

The prevailing philosophy was that the government, by natural law, received its power only from the people and "that government is best which governs least." The early colonists were not the only ones who held such a view. Adam Smith, a Scottish economist, held this view in his *Wealth of Nations* which was published in 1776. Smith's doctrine of *laissez faire* held that the national wealth was the total of individual wealth and those conditions which produced the greatest individual wealth would bring the greatest national wealth. He reasoned that an economic system which would permit the greatest freedom would allow individuals to seek their selfish gains in terms of maximum wealth; the increase in individual wealth would increase the nation's wealth. According to Smith, the natural "law of supply and demand"

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would regulate the business to the good of the community (in the absence of an exclusive corporation). As a result of the common attitude of *laissez faire*, the American people opposed governmental interference in the economic system in a regulatory manner. However, as Corley and Black point out, changing conditions require changes in law or a new law. Thus, the growth of government regulations paralleled the growth of the economy. The economy of the United States at the turn of the seventeenth century was a small and simple one. Agriculture was the largest single industry. Most of the people lived on farms and were self-employed. Manufacturing, a relatively small industry, was carried on by a few craftsmen in their homes.

The industrial revolution of the nineteenth century transformed the economy. Manufacturing surpassed agriculture, and mass production forced the small crafts and home industries out of existence. Farmers began producing larger crops for sale. The expanding population, due in part to immigration, provided labor and an expanded market. Many inventions, capital provided by profits of business, and savings of the wealthy gave means to rapid expansion. Competition increased, and to protect their investment, many companies cut prices to gain more sales in an attempt to produce at full capacity. Strong companies operated at a loss until weaker ones were forced out of business.

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Some firms colluded to "fix prices, divide the market and control production." Monopolistic combinations appeared in various industries during the latter part of the nineteenth century. These combinations threatened the pocketbooks of the consumers as well as small business firms.

The law in policy had been in favor of competition and against monopoly from its beginning, but the common law was inadequate to remedy the problems brought on by a vast economic change. While the courts under the common law did not enforce contracts in restraint of trade, they did not prevent the parties from carrying out such a contract. Fear of the threat of economic control by monopolies caused the public to demand new laws to insure competition. Not only were monopolistic combinations well established in some industries, there was an impending threat of monopolies in other industries.

_Laissez faire_ was no longer workable. In response to the changing nature of the economy, state legislatures and the federal government passed "antitrust laws." The treatment of antitrust laws in this study is limited to the major federal laws. The state laws are not unimportant. On the contrary, the various states have enacted many such laws. In fact, the states enacted the first of these laws.

The courts have found that "violations of the antitrust laws by concerns large enough to make their conduct of general interest have

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9 Ibid., p. 271.
sufficient influence upon interstate commerce, over which the federal
government is given control by the Constitution, to make the federal
laws applicable. Also, the federal laws contain most of what is
important in the state laws. Businesses, at times, have found them­selves harassed in certain states for acts which are tolerated or even
required in other states. However, federal antitrust law enforcement
is considered the most important control of business.

b. The Sherman Antitrust Law: The Sherman Law of 1890 was
the first federal antitrust legislation. Demand for this type of legislation
arose from widespread and vehement insistence that a law be passed to
control competition restriction of industry. The concentration of
industrial power was supposedly taking advantage of the small pro­
ducer and the consumer. This act serves as the legal backbone for
all legislation in the antitrust field. With certain exceptions, subse­
quent laws in this field are intended to supplement and clarify, rather
than supplant, the Sherman Law.

This law declares:

Every contract, combination in the form of trust or
otherwise, or conspiracy, in restraint of trade or commerce
among the several States ... and every person who shall

10 Dexter Merriam Keezer and Stacy May, The Public Control of

11 Ibid, p. 18.
monopolize, or attempt to monopolize, or combine or conspire
with any other person or persons, to monopolize any part of
the trade or commerce among the several states . . . shall
be deemed guilty of a misdemeanor, and on conviction
thereof, shall be punished by fine not exceeding five
thousand dollars, or by imprisonment not exceeding one
year, or by both said punishments, in the discretion of
the courts.12

Channels and methods of procedure for enforcement are outlined
under the act. One provision of the act provides that any property that
is moved in interstate commerce in violation of the act may be seized
as contraband by authorities. Any person who suffers because of such
violations is entitled to recover damages from the violator.

Decisions by managers were affected in various ways under the
Sherman Act. Without a doubt, many firms did not combine or attempt
to combine for fear of violating the act. During the first two decades
of the existence of the act, it was very strictly interpreted and all
persons or firms combining in restraint of trade and brought to court
under the act were convicted if proved guilty. Thus the act had the
effect of modifying restraint of trade decisions, and in some cases,
reversing them. In this situation, the law had a post effect on
managerial decisions, rather than a prior effect.

The Sherman Act condemns "every contract" in restraint of trade.
The term "every contract" is all inclusive. Thus, if the statute were
interpreted literally, practically every contract which lessens competition

12 Ibid., pp. 18-19.
would be deemed illegal in interstate commerce. The courts later applied the "rule of reason" by holding that restraints prohibited must be unreasonable. The Sherman Act is general and sweeping. Since particular acts on the part of individuals and firms and specific contracts were not defined, the provisions had to be interpreted.

In his opinion in the Standard Oil Case 221 U. S. 1 (1911), Justice White stated that since there was no standard specified, the Sherman Law contemplated and required one. The standard was the rule of reason which applied in common law. Justice White held this viewpoint although there is no federal common law aside from the maritime law.

Mr. Justice Stone affirmed the "rule of reason" view in United States v. Trenton Potteries, 273 U. S. 392, 1927. In upholding this view, Justice Stone said, "The essence of the law is injury to the public; it is only an undue and unreasonable restraint of trade that has such an effect and it deemed to be unlawful. 13

Thus, following this reasoning, if one party sells a going business to another and the seller and buyer agree that the seller will not enter into a like business within a certain area and period of time, the buyer can hold the seller to the bargain. However, when a firm or firms attempt to prevent competitors from entering into a market it can result

in a violation of the Sherman Act even though the firms do not exclude competitors from the market.

The American Tobacco Company, Liggett and Myers Tobacco Company, R. J. Reynolds Tobacco Company, and others, were charged and convicted of criminal violations under Sections 1 and 2 of the Sherman Act. In American Tobacco Company v. United States 328 U. S. 781 (1946), Justice Burton of the Supreme Court stated that the Government had introduced evidence that, even though the tobacco companies and others had not entered into a written agreement, it was clear that they tried to exclude competitors from the tobacco market. It appeared that some of the defendants refused to purchase tobacco on the markets unless the other defendants were present. When new tobacco markets were opened, none of the defendants would participate unless the others participated. As a result, the markets failed due to the absence of buyers. New tobacco markets were determined by the defendant tobacco companies in unanimous consent.

Justice Burton stated that the question before the court was whether actual exclusion of competitors was necessary to violate the Sherman Law. The Justice answered the question by saying that no formal agreement was necessary to establish unlawful conspiracy. In upholding the decision of the lower court, Justice Burton said:

Where the circumstances are such as to warrant a jury in finding that the conspirators had a unity of purpose or a common design and understanding, or a meeting of minds in an unlawful arrangement, the conclusion that a conspiracy
is established is justified. Neither proof or exertion of
the power to exclude nor proof of actual exclusion of
existing or potential competitors is essential to sustain
a charge of monopolization under the Sherman Act.

From this approach to the problem, a decision by a group of
tains was overturned by the courts. The Sherman Act does not apply
only to large firms or to cases where the public at large might be
injured.

In Klor's, Inc. v. Broadway-Hale Stores, Inc., 359 U. S. 207
(1959), several appliance companies entered into an agreement with
The Broadway store to sell the store televisions, toasters, refrigerators,
and other appliances at prices considerably lower than the prices they
charged Klor's Inc., a next door store. Klor charged the parties with
conspiracy to restrain trade and monopolize commerce. The manu-
facturing companies did not deny the allegations, but sought dismissal
of the case on the ground of lack of cause of complaint. The lower
Court found for the defendants. On appeal to the Supreme Court, the
Justice felt that the allegations made by Klor were indeed one type of
restraint which was forbidden by the Sherman Act. The defendants' act
made it impossible for Klor to purchase goods competitively. This type
of action interfered with interstate commerce and the Justice felt that
it could not be tolerated just because the victim was one small merchant
whose destruction would make little difference in commerce.

In this situation the Sherman Act had little effect on the decisions
of the appliance manufacturers prior to the case. They presumably felt
the act did not apply since there was no "public" injury. The injunction issued reversed prior decisions and most probably affected future decisions on pricing practices.

An interstate clause in the U. S. Constitution brought on restrictive interpretations, thus making early decisions under the Sherman Act inapplicable to manufacturing enterprises. Managers in this type of industry were able to make decisions without regard to the consequences of the act. However, in a 1937 decision (NLRB v. Jones and Laughlin Steel Corp. 301 U. S. 1), the Supreme Court liberalized its view toward the power of Congress to regulate commerce. As a result, manufacturers now come within the scope of the act.

The act was criticized because it offered no civil remedy to persons who had suffered damages from monopolistic practices. Little was done under the act to prevent practices which had tendencies to lessen competition. There were probabilities of actual practices which might lead to destruction of competition although falling short of actual monopolies or combinations. As the act was interpreted, it did not apply to such situations.

Since the terms of the act were vague, Congress expected the courts to determine what attempts to monopolize were unfair. The courts found difficulty in defining the vague terms of the act. As a result of this ambiguity, many managers were uncertain as to the legal implications of their decisions. It was felt that Congress should outline
in clearly defined terms just what it considered a threat to competition. Industrial leaders felt that they needed to get some clear understanding what would be considered violations of the act. Many critics argued that the Sherman Act created more problems than it solved.

The foregoing factors were among those behind the amendment of the Sherman Act after it had become evident that the act was not bringing about the results that had been expected.\textsuperscript{14}

c. The Clayton Act. In an effort to clear up confusion and to effectively check unfair trade practices and restraint of trade agreements, Congress, in 1914, enacted the Clayton Act. This act, entitled, "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," was an effort to supplement the Sherman Law. Some of the more pertinent sections will be covered in this section.

Section 2 of the Clayton Act made it unlawful for anyone to discriminate in prices between different purchasers or commodities where such practices may "substantially lessen competition or tend to create a monopoly in any line of commerce." Discrimination may be allowed in prices when there are differences in the quantity, quality, or grade of the commodity sold. Allowances can also be made for differences in "cost of selling or transportation." Differences could also be made in

\textsuperscript{14}Ibid., p. 810.
the same or different community if the difference was made to meet competition. Nothing in the act prohibits a seller from selecting his own customers in genuine transactions and if not in restraint of trade.

Under section 3 of the act, one cannot lawfully require a customer to handle his goods solely as a condition of sale, lease, or pricing, where the transaction would substantially lessen competition or tend to create a monopoly. Section 7 of the Clayton Act prohibits a corporation engaged in interstate commerce from acquiring the stocks or assets, directly or indirectly, of another corporation if such action would lessen competition or tend to create a monopoly. This provision does not apply if the stocks or assets so acquired are for investment purposes, and if the purchasing corporation does not prevent subsidiary corporations from forming to actually carry out the lawful business of the parent company—provided such transactions do not substantially lessen competition.

Under the Clayton Act a suit can be brought against a particular company without proof of monopoly or conspiracy, whereas under the Sherman Law, the complainant had to show monopoly or unfair practices. Although the Clayton Act did spell out certain unlawful practices, it did not specifically define "substantially lessen" and "competition."

Congress did allow the Justice Department more latitude in protecting the consumer's interest. Although certain monopolistic tendencies were curbed under the Clayton Act, many discriminatory pricing practices continued.
The question of how this act affected managerial decisions may be answered in the same general way as was the effect under the Sherman Act. Primarily, uncertainty of which practices would be allowed was always present. Further all the effects are still not known and perhaps will never be known. For instance, consider the following case.

It was thought that Section 7 of the Clayton Act dealt with horizontal acquisitions; however, the Supreme Court held in U. S. v. E. I. duPont de Nemours & Co., et al. 353 U. S. 586 (1957), that that section of the act applied to vertical acquisitions as well. During 1917-1919, duPont purchased a 23 per cent stock interest in General Motors. The action on this case did not begin until 1949, and no decision by the Supreme Court was reached until eight years later. By this decision against du Pont the Court extended the Clayton Act in three ways: (1) Section 7 was held to apply to vertical acquisitions, (2) The government was not precluded from bringing suit at any time after acquisition is made if a threat of restraining trade becomes evident, (3) The Court established the "relative market" for the case. The Court held that the relevant market was for auto finishes and fabrics, and not finishes and fabrics for all industrial purposes. However, one year earlier, the Court held that du Pont did not violate the Sherman Act although it produced a much greater percentage of total cellophane than it did the auto finishes and fabrics. It was the opinion
of the court in the Sherman decision that the relevant market was not
cellophane, but wrapping material, and cellophane accounted for only
a small share of that market.

From the du Pont case under the Clayton Act, three uncertainties
of the future antitrust law environment probably will affect decisions:
(1) uncertainty of relevant market, (2) percentage of ownership,
(3) share of the market.\(^\text{15}\)

Many managers took advantage of the price concessions allowed
for differences in quantity. As interpreted by the Judiciary, there was
no limit upon the differentials which were permitted because of differ-
ences in quantity. It was understood that this section permitted all
differences if such were made to meet competition. This had the effect
of "licensing oppressive retaliation."\(^\text{16}\)

The Clayton Act suffered from some of the same shortcomings as
the Sherman Act—namely, general and undefined terms and various
interpretations by the courts. While the Clayton Act did succeed in
keeping some monopolistic tendencies in check, it was none too effec-
tive in curbing discriminatory pricing practices. The act made no attempt
to regulate price discrimination in the form of rebates, allowances, free

\(^{15}\)Robert W. Harbeson, "The Clayton Act: Sleeping Giant of
Antitrust?" American Economic Review, Vol. 48, No. 1, March, 1958,
pp. 92-104.

\(^{16}\)Honorable Robert E. Freer, "Introduction to Section 2," Robinson-
Patman Act Symposium (New York: Commerce Clearing House, Inc., 1946),
p. 10.
advertising and demonstrations. It became apparent that those inadequacies made the act unable to control certain discriminatory pricing practices.

It was felt that "clarification and enlargement of the moral principles of Section 2 of the Clayton Act by way of a new law was worthy of trial." The Robinson-Patman Act was Congress's response to this demand.¹⁷

d. The Robinson-Patman Act (R-P Act). The R-P Act made several important changes in the pricing section of the Clayton Act. Section 2(a) of the R-P Act in amending Section 2 of the Clayton Act permitted quantity discounts provided actual economies could be shown in the manufacture, sale, or delivery of the goods. Pricing concessions were also allowed for certain types of goods such as perishable or stress goods, provided such allowances are made in good faith.

In an effort to curb certain practices that were designed to circumvent the Clayton Act, Section 2(a) made it unlawful to pay or accept payment for any allowances, discounts, or other fees except for those services actually earned. Under Section 2(d) it is unlawful "for any person ... to pay ... for any services or facilities furnished ... unless such payment is available on proportionately equal terms to all ... customers competing in the distribution of such products or commodities."

¹⁷Ibid., p. 11.
Section 2(e) made it unlawful for a seller selling commodities for resale to furnish services and facilities to one buyer unless such services are offered to all buyers on the same terms.

The R-P Act certainly seems to have had the effect of making competition more equitable, especially among large and small retailers. Many of the sellers discontinued certain discounts and allowances and brought their quantity discounts in line with savings from sales in quantity lots. Some modifications may have been to the detriment of mass buyers. For the first time, many of these buyers were deprived of advertising allowances. These allowances constituted one of the main sources of income. The position of wholesalers who serve the independent merchants has become stronger under the act. Nonaffiliated wholesalers have benefited relative to the voluntary-chains who are wholesaler-sponsored and now are deprived of some buying advantages.

Just what the ultimate effect of the R-P Act will have on the relative positions of the various elements of the distributive function is uncertain, but as Beckman and Davidson point out, "It may be said with certainty that thus far the operation of the Act seems to be in the direction of attaining a higher degree of equity in that price schedules

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19 Ibid., p. 828.
seem to be more carefully attuned to differences in cost of distribution than before the enactment of this legislation."  

Perhaps every national advertiser has at some time violated the anti-monopoly laws. "In some respects the R-P amendment is like prohibition. Some advertisers have learned to live with it, others simply flout it, and most carry the knowledge that the Federal Trade Commission (FTC) could get them at any time it wished." Some violators may be glad when they are cited by the FTC. The FTC may stop price concessions when the manufacturer did not want to grant them anyway. Or a manufacturer could find the act useful in denying retailers discounts and allowances. They could refuse on the grounds that it might violate the act, when in fact, they did not want to grant the allowances in the first place.

Although there has not been any alteration in the wording of the Robinson-Patman Act, there have been in effect, three different R-P laws brought about by FTC and court interpretations. In the early years, there was limited enforcement, but during the middle and late 1940's there was strict to radical enforcement. During this time almost all price differentials were illegal. Management could not make even the

\[20\text{Ibid.}

smallest price concession without it becoming illegal automatically.
During the 1950's the courts and the FTC were more reasonable and temperate in their interpretations.\footnote{W. David Robbins, "A Marketing Appraisal of the Robinson-Patman Act," \textit{Journal of Marketing}, Vol. 24, No. 1, July, 1959, pp. 15-21.}

Until the year the Robinson-Patman Act was passed, the Justice Department was responsible for prosecuting violators under the anti-trust laws. In 1914, the Federal Trade Commission became the "watch dog" for the public.

e. The Federal Trade Commission Act. This act set up the Federal Trade Commission (FTC) whereby the Congress delegated some of the Justice Department's authority to the Commission. Thus, machinery was set up not only to police the antitrust laws but the Commission was given control over "unfair methods of competition." Under this act, businesses have to give to the Commission, upon request, reports and information concerning the organization, practices, and conduct, of their operations.\footnote{The \textit{Federal Antitrust Laws} (New York: Commerce Clearing House, 1949), p. 28.}

Through subsequent acts and liberal interpretation by the judiciary, the list of unfair trade practices over with the FTC has control are continually expanding. The Commission had its main success in cases of "false advertising" and misbranding. In 1931, the Supreme Court
ruled that the Commission stop proceeding in certain cases when no injury to competition was shown. The Court acknowledged that in some instances the consumer might be injured, but since it involved no injury to competition, the FTC had no authority. In 1938, the FTC Act was amended by the Wheeler-Lea Act. The latter act specified unfair or deceptive practices or acts in commerce, thus leaving the FTC free to proceed without regard to competition.

The Federal Trade Commission Act was passed to make unfair methods of competition and unfair trade practices and deceptive acts unlawful. What methods are considered to be unfair are not defined. To a great extent it is up to the FTC to determine what is unfair. Since the FTC is an administrative body, its rules have the force of law. It is true that the rulings of the Commission are subject to review by the courts; procedures are complex and time consuming and courts usually uphold an administrative "order."\(^24\)

The businessman is faced with uncertainty in almost any decision he makes regarding advertising, price concessions, and other practices unless he gets prior acceptance from the FTC. And if the FTC does not undertake to specify what practices, item by item, are considered "unfair," the businessman will be left without guidelines of what is

legal and what is illegal under antitrust laws. It is apparent from experience and existing circumstances that the anti-monopoly laws will continue in broad general terms which cover a host of unspecified trade practices and conditions.

Since it is unlikely that Congress will undertake to specify in each and every new legislation specific trades practices which are likely to come under the antitrust laws, the businessmen are not likely to enjoy flexibility and certainty in their trade practices. It is recognized that there needs to be much overhauling in the administrative agencies so that a fairly predictable pattern can be established. Mr. Minow realized this in the Federal Communication Commission. In his letter to President Kennedy upon leaving office, Mr. Minow pleaded for uniform and coherent policies. In Mr. Minow's words, "The administrative process is a never-never land which we call quasi-legislative and quasi-judicial. The results are often quasi-solutions."

3. **Price Maintenance Laws**

In interstate commerce where manufacturers sell to wholesalers and retailers, the pervasive function of pricing has to be performed.


Exactly how the resale price is determined is the result of complex
calculations. Who should set the resale price of manufacturer branded
articles has resulted in many litigations, and interpretations by the
courts and the FTC. There are federal laws and many state laws that
apply to resale price maintenance. An examination of all these laws
is beyond the scope of this study. However, in order to get a better
understanding of these laws and how they affect managerial decision
making, consideration will be given to the development of the laws in
general. Particular attention will be directed to the Miller-Tydings and
the McGuire Acts with references to state laws for purpose of illustra-
tion.

Prior to 1931 when the California Fair Trade Law was passed,
only one state had enacted a law specifically permitting resale price
maintenance. New Jersey enacted such a law in 1913. 27 Throughout
the history of common law, conspiracies and agreements in restraint of
trade were considered repugnant to public policy. The various antitrust
laws expressed this policy. Through interpretation of these laws, many
resale pricing practices have been attacked. However, the issue has
not been squarely met. Each issue must be decided upon individually
before absolute certainty can exist.

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27 Ewald T. Grether, Price Control under Fair Trade Legislation
The Sherman Law did not refer to price maintenance directly. The Courts had to judge whether contracts controlling the resale price was within the purview of the act. The first important cases dealt with patent rights and pricing. In Bauer v. O'Donnel (229 U. S. 1) 1913, the Court held that "The 'right to use' of the patent law cannot be expanded to include the right to maintain resale prices in any way not allowed in unpatented articles."^28

Although the Clayton Act was more specific in pinpointing illegal practices, it still did not deal directly with the problem. However, the courts consistently held that all contracts were illegal if the single purpose was to control resale prices. The decisions of the courts and the FTC held that special "fair trade" legislation had to be passed before resale price maintenance contracts could be legally enforced.

In 1931, The California Legislature enacted a fair trade law which was designed to protect "trade-mark owners, distributors, and the public against practices which were considered injurious and uneconomic. The law was amended in 1933 to include a non-signors clause. The Supreme Court ruled the law constitutional, and many states soon adopted similar laws. Not all states passed such laws, and some passed them without the non-signors clause. These first laws dealt

with intrastate commerce since the Sherman Act had declared such contracts illegal. The U.S. Congress soon dealt with the problem.

a. The Miller-Tydings Act. This act, in 1937, amended the Sherman Act to make resale price maintenance contracts legal where such laws were not prohibited by state laws, common law, or public policy. This act also amended Section 5 of the Federal Trade Commission Act to provide that vertical pricing agreements were legal.

The first important interpretation of the Miller-Tydings Act came in 1950 when the Supreme Court ruled in the case of Sunbean Corporation v. S. A. Wentling 185 F 2d 903. This decision held that the Miller-Tydings Act legalized vertical price agreements in interstate commerce only to the extent that such contracts did not place a barrier or undue burden on interstate commerce. Under this interpretation the fair trade laws of a state could not force retailers within a state to abide by the price agreements on sales made by them outside that state.

Perhaps one of the most significant interpretations of the Miller-Tydings Act involved Schwegmann Bros. v. Calvert Distillers, Corp. 341 U. S. 384. Schwegmann Brothers refused to sign a resale price agreement with the distillery company. The company charged that Schwegmann was bound by the agreement even though it did not sign an agreement. The Supreme Court made it clear that the federal law did not apply in expressly holding non-contracting parties to such agreements.
in interstate commerce. (Subsequently, the Louisiana fair trade law was ruled unconstitutional.) The Schwegmann decision touched off price wars in several major cities, and after much press coverage, it was thought that the fair trade laws were on the way out. But instead of being on the way out, these laws were reinforced by congressional action.

b. The McGuire Act. In July, 1952, Congress passed a new fair trade law to overcome some of the disabilities of the Miller-Tydings Act. In particular, the McGuire Act was aimed at the non-signor clause. Thus under this law a seller is bound regardless of whether he enters into such an agreement. Further, it legalizes any resale price in a vertical agreement. This includes absolute prices as well as minimum prices. In amending Section 5 of the Federal Trade Commission Act, the McGuire Act specifically exempts vertical pricing agreements under the state laws from any of the federal laws. In an apparent effort to overcome the ruling in the Sunbeam case, the act specifically states that such contracts do not "Constitute an unlawful burden or restraint upon, or interference with commerce."

Just how do the above and state resale price maintenance laws affect managerial decision making? For one thing it is a difficult job to police the laws. The vast number of stores involved have to be informed of the prices established and of all price changes. Some dealers may consistently cut prices. If so, it is usually necessary
for the manufacturer to seek court action to secure compliance. If
the manufacturer wants to pursue an effective policy of resale pricing,
he must be prepared to go all out to enforce such policy. He cannot
enforce agreements in some areas, or to particular sellers. If the
manufacturer ignores violations over a period of time by failing to
avail himself to the remedies at law, he may have abandoned or
waived his right of action. When a manufacturer merely goes through
the motion of maintaining prices with no true intent of enforcing them,
he practically invites price-cutting.

Since the fair trade laws apply only to manufacturers' trade-
marked or branded goods, many distributors may turn to privately
branded items. Competition plays an important part in establishing
the fair trade prices, since the resale price laws apply only to goods
which are "in free or fair and open competition with commodities of
the same general class produced and distributed by others." If the
price is set at a margin greater than actually required for profitable
operations, it is an open invitation to price-cutting. The "law of
supply and demand" may work more effectively than enforcement
machinery.

Suppose within an industry many firms have fair trade prices and
the industry produces a greater quantity than can be sold at the estab-
lished prices. As happened early in the 1950's, "natural economic forces
resulted in a 'spill over' of supply into new and then unorthodox channels

and consumers were able to buy at prices much below the traditional fair traded prices."29

Some lines of goods can be fair traded more easily than others. In the food trade, national brands can be more easily replaced by private brands than can drug or liquor lines. Also, some grocery prices are too unstable for price maintenance; notification of changes in prices would be too expensive. Private brands are strong in chain stores, and voluntary chains have put much weight on private brands. Thus, manufacturers are less likely to push for fair-traded prices in the grocery industry than in some other industry. Fair trade laws are not too effective where trade-ins are accepted as part of the purchase price. The dealer can readily "allow" a greater trade in value, thus effectively reducing the fair traded price. In this case the fair-traded price would be little more than a suggested price.

4. Some General Effects of Laws Affecting Business

In the preceding sections attention was given to particular laws and some of their effects on managerial decision making. In this section, a general summary will indicate how governmental regulations affect the decision-making process.

Competition in legislative lobbies and government has supplemented and, in some cases, replaced competition in the market place.

Some of the marketing functions have been turned over to the lobbyist and the counsel for the company. In some cases, present conduct alone will not suffice to determine if the operation is within the law. Forecasts become important for some firms. The Clayton Act condemns actions "where the effect may be" to lessen competition (emphasis added). Under this provision, the action may be illegal if there is a reasonable probability that such action may lessen competition in the future.

Since the laws are diverse and complex, businessmen are turning more and more to their lawyers. After consulting with lawyers, many business decisions are modified to try to insure that the law will be complied with. Many of the actions by businessmen are evaluated in terms of their legal results, and lawyers can offer some help in determining legal implications. It has been recognized that the economist can also aid in advising whether or not a particular action may have monopolistic tendencies. It is costly to maintain legal vigilance over marketing decisions. Large companies can more readily afford such surveillance, but the small company cannot afford such a broad range of advice. Edwards points out, "since most of the applicable laws apply to the large and the small, the consequence is that small companies tend to skimp their legal protection."³⁰

In large companies, a problem of the methods of delegating authority is present, created by the complexity of the legal standards. Top executives may work closely with lawyers in developing policies which take into consideration the legal aspects of decisions. Lower executives may not have a complete picture of the need for such controls and, in an attempt to operate under certain pressures, they may bypass the policies, or trespass beyond the scope of the policies. This would seem to call for a more centralized decision making with wider dissemination of policies and wider acceptance of them.

Legal considerations have not only affected the process of decision-making, but also the quality of the decision in evaluating a particular decision such as justifying a discount on a cost basis. One company found that a large percentage of its sales came from small transactions, and the costs of selling the items were more than the gross margin over the material and labor costs. In examining costs for legal purposes, the prices were revised for economic purposes.

Although it is not possible to measure the total effect of the legal environment, most informed observers would agree that the various laws have had significant changes in decisions by managers. Other laws dealing with labor-management relations follow.

5. Labor-Management Relation Laws

   a. Status before 1890. During the present century many state and federal laws have been passed concerning employer-employee
relations. These laws have covered such areas as hours of work, minimum wages, social security, union organization and collective bargaining. This study is directed to some of the federal laws which deal with union organization and collective bargaining and some of their effects on managerial decision making from the legal point of view. The next chapter will cover selected aspects of labor-management relations as an environment aside from the laws.

Although it was not until the 1930's that laws were specifically enacted dealing with labor in general, the basis of the early laws was found in the English Common Law. In Medieval England, the first laws restricting the action of workers were unwritten, although later they were codified and enacted by Parliament. The owner-manager was allowed to use his property and pursue his interests without any interference from labor. In 1351, Parliament passed the "Statute of Laborers." 31 This statute required every able-bodied person under sixty years of age (without independent means of support) to work whenever demanded by an employer. Wages were fixed by law and any attempt by an employer to entice workers away from other employers carried a criminal penalty. Further, any attempt by an employee to better his working conditions was punishable. These early laws concerned only

individual workers since no unions were in existence at that time. The Statutes of 1351 required that hiring be done publicly and for long periods of time to avoid employers competing for services of the employees. 32

Two hundred years passed before Parliament enacted a "general labor law" directed against unions or worker associations. In essence the 1548 law provided criminal penalties for any group of workers who promised or conspired together to jointly influence wages, production, hours of work, or working conditions. Under this law an actual attempt to influence the work situation was not necessary to bring punishment. All that was needed was a mutual promise to do so. In England, the Criminal Conspiracy doctrine continued until 1824. 33

After the United States won its independence, the doctrine of 
\textit{laissez faire} for business, with the criminal conspiracy doctrine for workers kept the latter in check. The first major labor problem in which the courts were involved was the 1806 "Trial of the Boot and Shoemakers of Philadelphia on an Indictment for a Combination and Conspiracy to Raise their Wages." The Cordwainers' Case as the first suit is commonly known, concerned a group of shoemakers who were charged with criminal conspiracy in: "Agreeing among themselves that

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33 \text{Ibid., p. 12.}
\end{equation}
they would work only in those shops where employees were all members of the group or combine; agreeing among themselves that they would not work for any wage below the wage scale established by the group. 34

The court held that no one had the liberty to "combine, conspire, confederate, and unlawfully agree to regulate the whole body of workmen in the city." The court looked at the action of the shoe-makers from two points of view. One view was that they took the action to benefit themselves, and the second, to injure those who did not want to join their society. Both acts were condemned by law. The judges, reasoning from a socio-economic point of view, regarded the union as "a threat to the status quo of society of which they were a part." 35 Until the conspiracy doctrine was reversed, trade unions had little hope of using concerted action.

In Commonwealth v. Hunt (1842), the Massachusetts Supreme Court held that the legality of workers combining depended on the end sought. This decision, in effect, reversed the Philadelphia case. Even though the Hunt case was tried in Massachusetts, the prestige of Justice Shaw in that state was so great that the precedent he set was seldom disregarded even by judges in other states. Justice Shaw said

that the intent of inducing all workers in the same occupation to join an association was not unlawful. The Justice recognized that the intent of such organizations could be for the purpose of criminal conspiracy, but this would have to be proved. In the years following the Hunt case, labor unions had to meet judicial interpretations with varying intensities, it was never again declared that trade unions were illegal per se. Thus in 1842 began a period of toleration for organized trade unions.

After the courts had determined that labor unions were not, per se, illegal, many employers turned to the "civil conspiracy" doctrine to seek relief from union activities. Under the "civil" doctrine there must be damage, intentionally done and without justification. As long as the damage was unintentional, the employer could take no action. The Civil Conspiracy doctrine was later modified to become the "Just Cause" doctrine.

No labor cases involving the Just Cause doctrine ever went to a federal court; however, many states did hand down decisions under this doctrine. In cases under this doctrine, the courts looked for two motives, a primary one and a secondary one. As an example, consider that the action of the union was legal; it sought to better wages. The workers then peacefully struck, and to gain the lawful end of better wages, they picketed the employer. The picketing may have been injurious to the employer, but the courts asked if injury to the employer
was the primary purpose of the picket or a secondary one? Many of the courts held that such action was primarily to injure the employer. It is a generally held view that the opinions of the courts were not in sympathy with the unions, and devised narrow and vague tests to render labor impotent.36 During the period from 1842 to 1890, the injunction was a favorite weapon of the employer. The doctrine of civil conspiracy gave way to the doctrine of conspiracy in restraint of trade under the Sherman Law.

b. Labor and the Sherman Law. It is generally recognized that the Sherman Law was set up to eliminate the evil monopolies and trusts. It was nine years after the Sherman Law was passed before the Supreme Court ruled against a business combination. And while the lower courts held only one case to violate the Sherman Act during these years, they declared that certain labor practices violated the act on twelve occasions.

There has been considerable controversy as to whether Congress intended the Sherman Act to apply to labor. It would seem that even though Congress may have had business combinations in mind when the act was passed, the provision of "every Combination" could well apply to any combination in restraint of trade which might arise in the future. At any rate, employers were successful in getting the courts to issue

injunctions much to the chagrin of organized labor. While management was using the injunction to halt certain union activities, the unions were lobbying intently for a revision of the Sherman Act in order to further their aims. In 1914, an amendment, hailed by labor as labor's "Magna Charta" was passed.

c. The Clayton Act Revised. When the Clayton Act was passed labor was sure that events such as the injunction in the Danbury Hatters' case (a 1908 case---the first case involving labor and the Sherman Act to reach the Supreme Court) were gone forever. These expectations were short-lived as the Supreme Court began interpreting the Clayton Act in various cases. Sections six and twenty are the relevant sections of the act. It seemed that section six removed labor from the Sherman Law. It was also thought section twenty would place severe restrictions on managements' use of the injunction.

Employers did not sit idly by and accept these provisions of the Clayton Act. Instead, they struck at the terms "lawful" and "peaceful" appearing in both sections of the act. Since these terms were not defined in the statute, the courts went to common law to find whether or not a particular activity was unlawful. Common law condemned secondary boycotts as an unlawful means. Therefore, labor did come under the antitrust laws when such activities were used to interfere with the flow of commerce.
The Clayton Act permitted private parties injunctive relief in their own names, whereas the Sherman Act required the United States Attorney General to bring suit in the name of the Government.

During the earlier years of the Sherman Act and the Clayton Act, and until 1932, union activity centered primarily around extending organization. During this time, the federal courts gave unions little aid, and most all of the state courts did all they could feasibly do to prevent union organization. Gregory points out that either the courts "Were unaware of the real economic interests unions had in organizing competitive non-union plants, or they realized it and hoped that by thwarting the extension of unionism, the competition of non-union plants would kill off what organization of labor had already taken place." Thus management, armed with the "weapon" of judicial feeling and interpretations continued to rely upon the injunction until the Norris-LaGuardia Act was passed.

d. The Norris-LaGuardia Act. This 1932 Act, frequently called the "anti-injunction" law, had as one of its main purposes to deprive the federal courts and employers from using the injunction in cases involving or growing out of labor disputes. For the first time, the legislature officially recognized the right of labor to picket, boycott, and strike.

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One favorite weapon the employer used was the "yellow dog" contract whereby an employer required the worker to promise that he would not join a union while in the former's employ. This way, management could control the workers union activities. The Norris-LaGuardia Act made such a contract unenforceable as contracts of this nature were against public policy. Although the legislature recognized the union's right to many activities that had formerly been considered unlawful, management was still not required by law to bargain with unions. Yet, the Norris-LaGuardia Act began an era of "almost complete freedom of union expansion through economic self-help."38 One year after the Norris-LaGuardia Act was passed, Congress passed another law that gave further recognition to organized labor.

e. The National Industrial Recovery Act (NIRA). This act was passed to get the support of businesses and labor in order to elicit full cooperation so that the economic depression may be overcome and public confidence restored. Businesses were to be allowed to establish their own regulations and to control prices. Section 7(a) was included to get the support of labor.39 This section of the act states:

... (1) That employees shall have the right to bargain collectively through representatives of their own choosing,

38Ibid., p. 223.

and shall be free from the interference, restraint, or coercion of employers of labor, or their agents, in the designation of such representatives or in self organization or in other concerted activities for the purpose of collective bargaining or other mutual aid and protection; (2) that no employee and no one seeking employment shall be required as a condition of employment to join any company union or to refrain from joining, organizing, or refrain from joining, organizing, or assisting a labor organization of his own choosing....

Outside the railway industry, Section 7(a) of the NIRA gave the most complete governmental endorsement to the principle of collective bargaining up to that time. There were no penalties, however, for the employers who did not wish to comply. Many employers did adjust their policies to the spirit of the law, but the great majority did not. To a great many employers this section of the act was an invitation to set up company unions and representative plans to prevent the unionization of their employees.

Organized labor, on the other hand, held a different viewpoint. The American Federation of Labor considered the section a public endorsement and encouragement of collective bargaining. These divergent views led to industrial unrest. To overcome this problem President Roosevelt established a tripartite National Labor Board which took on the function of settling disputes by mediation and conciliation and voluntary arbitration. This board also determined whether a union represented employees in a particular situation and whether employers used unfair methods of interference with employee organization.

This board developed many of the policies that were followed in
future labor-management relations, it had no authority to penalize employers for unfair labor practices. The NIRA was short-lived as the Supreme Court rendered the act unconstitutional in the Schecter Poultry Case in May, 1935. One month later an even stronger labor law came into being.

**f. National Labor Relations Act (NLRA).** Even though the NIRA was declared unconstitutional, the provisions of section 7(a) dealing with the employees' right to organize were established and accepted by the Congress. When the NLRA was passed in 1935, it was the most far reaching act that had been passed up until that time. Among the important provisions of the act were: (1) A National Labor Relations Board (NLRB) was established to determine the proper bargaining unit and to enforce other provisions of the law; (2) Certain practices of employers were considered unfair when they interfered with employee self-organization. The following practices were considered unfair under (2) above: (a) employer domination of union, (b) employer discrimination against an employee for reporting alleged violations by employers, (c) employer discrimination against an employee because of his union activity, and (d) employer refusal to bargain in good faith.

The Wagner Act (the name by which the NLRA is commonly known), was based upon the philosophy that by employers refusing to bargain with the unions, strikes resulted which interfered with the flow of commerce. Section 7 of the Wagner Act declared that employees "shall
have the right to self-organization, to form, join, or assist labor organizations, to bargain collectively through representatives of their own choosing, and to engage in concerted activities for the purpose of collective bargaining or other mutual aid or protection."

Section 8 of the act was designed to guarantee the workers' rights as outlined in Section 7. The philosophy of Section 8 was that employers must completely "refrain from concerning themselves with the union activities of employees." 40

As a result of the Wagner Act, employers could no longer legally form company unions or employee representative plans or either help or retard a particular union in becoming the representative unit for bargaining.

The pendulum of public opinion swung wide indeed with the passage of the Wagner Act. The new policy of the government was so drastic a change that many employers felt it would soon be put to rest in a grave dug by the courts. The Supreme Court allayed these hopes when it ruled the act constitutional in NLRB v. Jones and Laughlin Steel Corp. 301 U.S. 157 S Ct 615 (1937). In the following years many who had been critical of the changed public policy as expressed by the Wagner Act did not argue directly against collective bargaining; neither was the idea that employees should be free to organize any longer repugnant.

40 Ibid., p. 752.
But, it was felt that public policy had gone too far. Hence, employers argued for modification of the act.

Of particular concern to employers was their feeling that a limitation was imposed upon freedom of speech in communicating with employees. Many also felt that since the Wagner Act specified unfair practices for employers, there should be a like provision for unions. These arguments together with the industrial unrest that followed World War II and popular discussion of post-war union-management relations led to the passage of an important revision of the act.

g. The Labor Management Relations Act (LMRA). The act, known as the Taft-Hartley Act, was passed in 1947 over the veto of President Truman. With the act came some new features to the national labor policy. One such feature was that labor as well as management should be regulated to protect the public interest. The NLRB was expanded to five members instead of three as under the Wagner Act. The NLRB under the Taft-Hartley Act, had an independent general counsel to determine whether to prosecute violators. The NLRB was given jurisdiction extending to any business that "affected commerce." The board had a limited budget and never was able to fully exercise its power, however, the board did lay down specifications which business must meet before it would consider the cases. These criteria were intended to keep the Board from being flooded with complaints involving small firms with relatively few employees.
This action by the board effectively nullified certain aspects of the protection that the Taft-Hartley Act intended for small employers. As an example, the act made it an unfair practice to coerce an employer or self-employed person to join a union. This provision would have more meaning for the small employer or the self-employed without hired help. Yet, these small employers usually did not meet the requirement of the NLRB to seek relief from that board. And they were unable to get relief from the state labor boards when the Supreme Court held that the state boards could not handle cases where the NLRB had refused such cases. As a result of this "no man's land" the small employer was without a "forum" to hear his case. This defect was not corrected until 1959.

The Taft-Hartley Act authorized states to pass "right to work" laws. Closed shops were forbidden in most industries under the law, and certain coercive practices of unions were forbidden. New restrictions were placed on boycotts and jurisdictional disputes. A provision in the law gave management the right to free speech in expressing opinions on unions and union membership provided there is no threat of reprisal or promise of benefit for employee action. Just what constitutes free speech has to be interpreted for each case. In many instances, employers felt that they were exercising the free speech guarantee on some matter and the NLRB would rule that such speech was unfair. By carefully wording statements, antiunion employers may actually use them
as a deterrent to union organization activity. Employers are not required to remain neutral on union organization; he may actively campaign for "no union." It has been held that employers can compel employees to meet on company time to hear attacks on unions as long as they express opinions and not threats.

Minor amendments to the Taft-Hartley Act came in 1951 when it was declared that the NLRB would not have to certify elections regarding the union shop, and in 1954 when the Communist Control Act provided that a union found to be "infected" with communists are denied relief from the NLRB as to becoming certified as a bargaining agent or to seek relief from an unfair employer practice. A communist controlled employer is likewise barred from seeking relief.

A Senate investigating committee began in 1957 to investigate some questionable practices of unions and employers. Many improper practices were brought to light including "the paying of tribute and bribes by employers, other types of payoffs and shakedowns..." and many instances of improper conduct on the part of unions. As a result of these investigations, Congress received several proposals to amend the Taft-Hartley Act. Thus, in 1959, Congress enacted the "Labor-Management Reporting and Disclosure Act." (LMRDA)

41 Ibid., p. 763.

h. The Labor-Management Reporting and Disclosure Act. This act, known as the Landrum-Griffin Act deals primarily with the internal control of unions. Many parts of the amendment do deal directly with the employer. Title II of the LMRDA requires employers to file reports with the Secretary of Labor disclosing payments and loans made to unions, union officers, shop stewards, and employees of unions, unless such persons received pay as a result of their regular services to the employer.

Although the reporting requirements of the act may be burdensome to employers, the act extended some benefits to them. The act closed some of the loopholes regarding secondary boycotts. Under the Taft-Hartley Act, some unions succeeded in getting employers to sign collective bargaining agreements whereby the employers agreed that their employees would not handle goods of anyone with whom the union was having a dispute. The LMRDA prohibits such contracts except in the clothing and construction industries. This act also settled the "no man's land" problem, permitting "such employers to go to their own state agencies or courts and by forbidding the NLRB from declining to assert jurisdiction over any labor dispute over which it would have asserted jurisdiction under the standards it had established as August 1, 1959."43

As a result of this provision, many employers were offered relief from unfair labor practices.

In addition, the rulings of the NLRB have held that many of managements' "prerogatives" are negotiable. It has been held that an employer cannot fire a union member for handing out union literature during working hours in violation of a company rule forbidding soliciting. A federal court upheld an NLRB ruling to reinstate the worker. The court did not rule whether the company's rule of "no soliciting without permission" was violated.

Summary of Certain Effects of Labor-Management Relation Laws: The basic federal labor laws have affected the decision-making process of management. No longer can management prevent a representation election from being held under the law if the workers desire one. Once the appropriate bargaining unit has been set, management must bargain with the employees' representative.

The NLRB and the courts have held that under the Taft-Hartley Act and the Labor-Management Reporting and Disclosure Act there are certain managerial practices which are considered unfair. Some of these practices are summarized below.

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Management cannot make promises of pay increases or other forms of special benefit or favor to employees if they will vote against or stay out of a union. Management cannot conduct its behavior in such a way that would indicate to the employees that they are being watched to determine if they are participating in union activities. It is considered an unfair labor practice for management to intentionally assign work or transfer employees to separate those interested in union activities from those who are not.

If management asks employees about the internal affairs of the union, it is subject to charges of unfair practices. (An employee may, upon his own accord, volunteer information about such matters. It is not an unfair practice to listen.) Management cannot, without being subjected to unfair practice charges, ask employees at the time of hiring or thereafter whether they belong to a union or have signed a union application card. It is an unfair labor practice for management to discriminate against union members by intentionally assigning them to undesirable work because of their support of the union.

Management cannot discipline or penalize employees who actively support a union for an infraction which non-union employees are permitted to commit without discipline. Selecting employees to be laid off in order to curb union strength, or to discourage affiliation is also considered an unfair labor practice. If management asks employees how they feel about a union or its officers, it is subject to an unfair practice charge.

Certainly, management decision making has been modified. In
some cases management seeks ways to get around the requirements of the law. In other cases, management welcomes the union. As with the antitrust laws, the effects of the labor laws are sometimes "post-decision" effects. The NLRB with support of the courts has reversed some of managements' decisions.

Although the basic public policy has been set forth in the various labor-management laws and interpretations, the full effect of these laws is not certain. Especially is this true of the Landrum-Griffin Act, which is still trying to be understood by unions, management, lawyers, and the courts. As can be seen, however, these laws with their prohibitions and permissions have affected managerial decision making. But, aside from the legal environment of labor-management relations, decision making is affected by the environment of labor-management relations from another point of view to be covered in the next chapter.
CHAPTER III

ENVIRONMENT OF MANAGEMENT-LABOR RELATIONS

A. Some Union Organizational Influences

Although the workers' "right" to organize is now accepted by public policy as supported by the various labor-management relations laws, the fact remains that workers are not organized in many firms. In some firms unions have sought to represent the workers as their bargaining agent but have failed to win an election. In other firms there have been no serious attempts by the workers to organize.

In some situations where the workers either did not attempt to organize or where they tried and filed, the absence of a union is in part a result of the attitude or actions of the employer. On the other hand, some employers might desire a union because of certain advantages (to be covered later).

The employees or the community public may push for or against union organization. While the attitude of one group may favor union organization, the various powers of the other groups may be strong enough to overcome the attitudes of the pro-union group.

These attitudes and power concepts thus constitute an environment within which managers have to make decisions and these decisions will be affected by the various factors of the environment.
1. **Attitude of Management**

Although labor movement theories generally consider the attitudes of workers as determinants of union growth, in some cases the attitude of the employer is as important if not more important than the attitudes of the workers. Especially is this true of the southern employer. Marshall points out that "...the employer has probably been as important in causing Southern workers to join or not to join unions as the workers themselves."\(^1\)

According to Marshall, the Southern "agrarian-oriented" workers seem to feel that the boss has the natural right to control wages, hours and working conditions--this right granted by ownership. This situation evolves in part from the attitude of the workers. Thus, how the employer feels about unionization is "respected" by the workers. In other cultures, this is not necessarily so. If the employer has branch plants, he will frequently be less opposed to the union in the branch plants. This is due, in part, because it is more convenient to deal with the same union that is in the main plant, and because the employer feels there may be union trouble elsewhere.

Employers, in many cases, encourage union growth. Employers may encourage a particular union to avoid a less desirable union.

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Employers may also encourage unions to gain advantages of the union label as in the clothing and tobacco industries. Unions may be encouraged by employers to help stabilize prices by stabilizing wages as in the coal industry.

Some unions may be desired by employers to insure the employer a source of skilled workers as is evidenced in the construction industry. Other employers have inadvertently encouraged unionization by maintaining poor working conditions, low wages, and by anti-union tactics. Many employers have learned that unions can perform valuable personnel functions. One of these is gaining acceptance of policies among employees to whom such policies apply. Another is helping the workers understand and accept rules governing the work relationship.

The attitude of management upon union organization depends in part upon the nature of the business and to the extent that competing firms are unionized. The employer's attitude will be more favorable if he feels that the unions economic program coincides with the firms' economic interest.\(^2\)

Employers' attitudes, ranging from complete acceptance to forceful rejection have affected the ability of unions to organize firms, and in many cases, the attitude of the employer will reflect the type of union leadership the workers have after they are organized.

2. **Attitude of Employees**

The attitudes of the employees are important in determining whether or not they will attempt to organize. Perhaps it is an over-simplification to say that a labor union cannot be organized until the workers see a need to organize. In many cases, if the employees see such a need, they may possess enough power to get recognition. The actions to organize by the employees reflect, in general, their attitudes toward the union and the employer. It is perhaps true that many organizing drives do not reflect the true attitude of the majority of workers, but they are swayed by some workers and union organizers to push for recognition. In other situations, the workers may not feel any need for organizing. In fact they may thwart organizing attempts. An event which took place at the Lincoln Electric Company in Cleveland, Ohio, reflects this latter attitude.

The Lincoln Electric Company produces electrical equipment such as power generators, and arc welding equipment and supplies. In an effort to elicit participation from the workers, Mr. Lincoln, president of the firm, conducts weekly meetings with representatives of the workers and lower level supervisors. Although Mr. Lincoln considers all recommendations, he usually decides the issue. Through a profit-sharing plan, the workers at Lincoln Electric earn considerably more money than the industry average or other area employees. There are no elaborate rest facilities, or employee "services." The prevailing philosophy of
management, (and apparently the workers share this philosophy), is that the plant is a place to work—to work hard and efficiently—and receive better than average pay. This philosophy seems to have been accepted by the workers because for many years Lincoln Electric Company had one of the lowest labor turnover ratios in industrial society.

There has been only one serious attempt to organize the firm. A union organizer announced that he would speak to the workers during their lunch hour. At the appointed time when the workers sat around an open space eating their lunches, the union organizer stepped up on a box and began to talk. There was a rather large power generator nearby with its motor idling and as soon as the organizer began to talk, a worker opened the throttle on the generator, drowning out the words of the organizer forcing him to stop talking. When he stopped, the worker closed the throttle, reducing the motor speed to an idle. Then the organizer began to speak again, and again the worker opened the throttle and drowned out the words until the union man stopped talking. This went on for a couple more times, then the union organizer stepped down from his box and left. Although this example may be somewhat humorous, it seems to point out the fact that unless the workers are willing, no organization can take place.

3. **Attitude of Community**

Community acceptance of and hostility to organized labor have had
an effect on union organization. The general public attitude has changed over the years, and to a large extent union activities are supported by the public. In other areas public attitude has had a deterring effect on union organization.

In the South particularly, there has been a natural antipathy for a "new power center" due to its upsetting influence. Also many southern leaders feel that unions have an upsetting influence on industrial development. This idea develops from the attitude that strikes and unions impede industrial development, and anything that does so must be suppressed.3

The local press may also actively oppose unions during organizing campaigns. Local law enforcement agencies generally reflect the attitude of the communities and unions, at times, may expect little sympathy from them.

"Citizens Committees" were established to resist organized labor. These committees were temporary organizations, born out of fear of losing business firms in a city. Threat of moving to another locality caused local business groups to put pressure on public officials to break strikes and "eliminate labor unions." As one mayor explained, he was afraid of the property owners in the city, and he would be a ruined man if he went against the feelings of the committee.4

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4 Lester, op. cit., p. 654.
A personnel manager of a plant in Gadsden, Alabama, explained that it was much easier to get community sentiment for the company in a small town than in a large one. This is true because many small town employees are dependent upon one or two companies for wages.

Some communities in the South have passed ordinances making it almost impossible for unions to organize. The city of Baxley, Georgia, passed an ordinance requiring union organizers to pay $2,000 for a licensing fee to organize, plus a $500 fee for each member who joined the union. The U. S. Supreme Court ruled this unconstitutional, but many localities keep such ordinances on the books to harass union activity.\(^5\)

4. Conceptual Framework of Power

While the attitudes of management, employees, and the community are important in inhibiting or fostering union organization, the attitudes alone on the part of each group is usually not sufficient to produce results. Regardless of the attitudes, much depends upon power.

In looking toward power as an approach to union organization, one need not be concerned with the ultimate objectives of organized labor. It is assumed that labor organizations are concerned with the acquisition and/or retention of power. Power, in the meaning applied here, is the ability to cause or prevent change. The affectors of change

\(^{5}\)Marshall, \textit{op. cit.}, p. 181.
considered here are economic, moral, physical, and political power.

Neither management, labor, nor the community will necessarily have a monopoly on these powers at any one time.

A person or group may hold economic power when he has the ability to either grant or withhold goods and services.

Moral power is the ability to cause or prevent change by appealing to fundamental concepts of rightness (which will, of course, vary from culture to culture): and physical power is the ability to cause or to prevent change through the use of physical force. Political power, ... is really a conglomeration of physical, economic and moral power and is the ability to cause change by controlling the particular entity involved.  

Different organizations will respond to different kinds of power depending upon their particular function and the kinds of power they seek or already have. Standing alone, power merely determines the "ability" to cause change. Change occurs only when power is focused and applied on the organization (employer, government official, workers, etc.) that is expected to make the desired change. Motivation and strategy are involved in bringing power to bear upon an organization where strategy is defined as the efficient application of power. While a group may be deficient in one type of power, it must have sufficient power of another type to overcome the deficiency. For example, a

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Ray Marshall, "Some Factors Influencing the Growth of Unions in the South," A mimeographed manuscript distributed to the Economics 125 class during the summer session, 1961, p. 5.
union may not have adequate moral power to force an employer to change positions, but physical and economic power available may be sufficient to cause the desired change.

Before a union can organize a firm against an employer's will, the workers involved must be able, through power, to force the employer to share in the formulation of work rules with the union. And before a union can grow, it must have the power to overcome the forces resisting its extension into other and new areas.

B. Environmental Framework for Bargaining

Even after a union has been certified as the bargaining agent for a particular group of workers in a firm, that firm still may not be effectively organized. For a firm to be effectively organized, it must have a contract, and to get a signed contract there must be bargaining, but no law can actually force an employer into a collective agreement. And the extent of an agreement, if there is one, is the result of many factors involved in the bargaining process--i.e. the interaction of organizations in an environment. Dunlop says that "Collective bargaining is the process of accommodation of management and union organizations in a particular environment."\(^7\) \(\text{Italics original}\)^7.

There may be one or more organizations on each side. No judgment of results is intended by use of the term "accommodation." It simply means the process of bargaining between organizations. Further, it should be emphasized that accommodation takes place only in a particular environment--this environment may be fairly stable or rapidly changing. Dunlop distinguishes four facets of the environment as:
(a) the work setting in terms of technical and physical conditions,
(b) the status of the labor resource market and product market, (c) the environment of the relations of the parties involved--including the relations of the union to other unions and the management to other management in its labor relations policies, and (d) "the ideas, beliefs, and value judgments in the community and in the industry in which the parties bargain."^8

It is within the total context of the environmental framework that bargaining strategy, management and union response to demands, and the role of bargaining and arbitration will be considered.

1. Some General Policies Towards Bargaining

The federal laws require companies engaged in interstate commerce to bargain with unions which represent the majority of employees in a particular unit. Most businesses operating intrastate are required to bargain by state laws. However, there is no compulsion for labor and

^8 Ibid., pp. 386-387.
management to come to an agreement. Thus, managements usually adopt a policy in "dealing" with unions. Although there are probably as many specific policies as there are employers, Newman and Logan classify bargaining policies in several general categories.\(^9\)

(a) Belligerent Policy. Employers who maintain this policy will balk at union activity at every opportunity; they will make no concession if it is at all avoidable; and will do all they can to weaken the unions. These employers usually distrust the unions and try to discredit them in the eyes of the workers. It is hoped that the employees will "repudiate the union and it will no longer have to be recognized as the bargaining agent."

(b) "The 'Horse-Trading' Approach." Under this policy, the employer may recognize the union as being inevitable—but conniving and unreliable. Following this approach, management may seek to solve immediate problems while at the same time violating sound human relations principles. It has been considered a question of outsmarting the other party.

(c) "Follow the Leader." Some employers feel they are too small and weak to stand out against the union and will seek to establish a general understanding with the union that they will pay wages that have

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been agreed to by leading companies in the industry or area. This "policy of appeasement" may be advantageous to the company under some circumstances. However, after having won these wages the union may ask for more, and without considering local adaptations, a small firm may be in trouble.

(d) "Straight Business Relationships." This is a straightforward approach to negotiations reflecting a more mature viewpoint of industrial relations. This type of policy can be followed only after organization and recognition is settled and mutual trust and confidence prevail. There certainly may be disagreements, but they will be approached on a "businesslike" basis. A policy of this type may have evolved only after several years of stable union organization.

(e) Employer Association: While some firms may adopt any one of the above policies, they may feel too weak to handle the situation by themselves. Some large, strong unions with ample funds are able to bargain aggressively with small independent employers to the extent of dominating the employers' labor relations policy. This type of situation has caused many of the smaller employers to form associations to strengthen their bargaining position.\(^\text{10}\)

In their decisions to join forces to bargain collectively with unions,

the employers hope for benefits. Among such benefits are: (1) labor relations program conducted at a lower cost. Through the use of a professional labor relations man, the firms are helped because the counsel acts as the primary representative of the association. He also negotiates and administers the multiple-employer agreements, processes all grievances beyond the initial stage.

While the small employer benefits perhaps more relative to the large firms, the incentives for individual employers to form an association vary with the industries involved and the general economic context, but it seems the most important single factor in creating a need for employer association is the relative size and behavior of the union.\(^{11}\)

Large firms have also tried "joint" bargaining. In the rubber industry, the big four (Goodyear, Goodrich, U. S. Rubber, and Firestone), and to a lesser extent, smaller companies tried to negotiate with the unions for the rubber group. Bargaining conferences broke down after two attempts. Smaller companies did not join the big four and no industry-wide bargaining developed.

(f) "Union-Management Cooperation." This type of policy has been essentially an experimental one and deserves more emphasis—thus it will be discussed more fully below.

The above examples constitute some of the more common union

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\(^{11}\)Ibid., pp. 54-55.
policies of management. There are many combinations and variations, the discussion of which is beyond the scope of this study.

One point seems certain; there will be little hope for consistent and really effective industrial relations until management formulates a basic policy to guide it in dealing with labor relations. The type and extent of such a policy will be determined to a great extent by the prevailing labor—management relations environment.

2. Bargaining Strategy

a. Necessity for understanding cogent factors. In some instances, a manager may be unable to get a complete picture of, or interpret, environmental factors as well as he should. The results often can be costly. As an example, consider the case of a West Coast firm.\(^{12}\)

During WW II the company did a lot of foundry work for the government. Post-war orders declined to the point where the foundry section was losing money. In bargaining over wages, the union demanded the area wage for foundrymen that the union had been successful in obtaining from the employers association. The union agent told the mediator that the union could not accept a wage less than the area wage because the employers' association would use this as an attack to lower area wages. The company told the mediator that it could not pay the

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area wage as the foundry section was already losing money, and rather than pay the wage, the foundry section would have to be closed. After mediation failed, the union pulled out the entire plant on strike. After several months the firm announced that it was closing the foundry section. The union agent confided in the mediator that he could not call off the strike immediately because it would look like a strike was called to close the foundry and put union members out of work.

Several days later the union voted to go back to work and to have the union file an unfair practice charge against the firm. The union agent did not expect the charge to stick, but it was a tactical move by the union in an effort to save face. The charge was dismissed by the Labor Board. The union agent later said if management had interpreted the situation right, the raise in pay for the foundry workers would have been granted (to protect the area wage); shortly thereafter management could have closed the foundry without an expensive strike. In this situation, evidently management could not perceive and correctly interpret the overall environment. Closing the foundry could have been done at a smaller cost.

b. General strategy. Downing suggests that management separate the unions' demands into "non-cost" and "cost" items and to defer the latter until all the former have been taken care of. Downing feels that most of the conflict hinges around money in one form or the other, and it is best to take care of all non-cost items before considering cost items.
It is also felt that it is good management strategy to place the union in a position of having to reciprocate after management has "moved" to its bargaining position. It is also considered good strategy for management to act only "in its turn" to prevent some undesirable complications. When the negotiations get down to "brass tacks" and the union asks for a 15¢ per hour wage increase but is actually willing to settle for 8¢ per hour, how will management react? It is difficult to say what any one manager would do, but in general it may be expected that management will counter the demand. Suppose management is willing, if necessary, to grant a 5¢ per hour increase, but actually informs the union that no wage increase can be expected this year. The union has a bargaining cushion of 9¢ and the company has a cushion of 5¢. The difference between the union's minimum or "real" figure and management's maximum or "real figure" is 3¢. This 3¢ spread is likely to be the ultimate bargaining area. As generally is the case, both parties will retreat from their original positions and move toward the "center."13

Now assume that both parties have reached their "real" figures. A temporary impasse may be reached. Management may now be faced with the threat of a strike, and as a general rule will reappraise its

position. Is a strike worth 3¢ per hour? Of course, the union will have to answer the same question. The deadlock might result in a compromise either through completely voluntary negotiations, or with the help of a conciliator.

Under the foregoing example, management had one of three choices. Concede to the unions' "final" demand of 8¢; compromise; or stand fast to its 5¢ position. If the company decides to stand fast, it can appeal to the employees as to the reasonableness of its offer. This may be done through letters sent to the employees' homes and with supervisors meeting with the workers. Sometimes the tide can be swung in favor of management. Certainly, all bargaining procedures are not as simple as this illustration, but the example does point out the general nature of the process. From experience, there are general "rules" established for managers entering into negotiations.

c. Strategy of Boulwareism. General Electric feels that it is up to the company to find out what it can fairly and legitimately offer in collective bargaining, then stick to its offer regardless of what may happen. General Electric answers with only one counter-proposal, but management will not budge from its position, whether mediation, the government, or a strike comes. According to Mr. Boulware, General Electric decides what is fair and sticks to it with no haggling.

This type of bargaining tactic is known as the "hard line." It is aimed directly at the workers, and the success of the "hard line" depends upon its effect on the worker.
For seventy years prior to 1947, General Electric, although achieving many accomplishments, did not enjoy enviable relations with the public or the workers. General Electric felt it was not so much that their relations were bad—rather they were poor, which was about par for the average American corporation. The company felt that the harder it tried, and the more it got done, the more misunderstanding and disapproval they experienced.

The company then employed resources and techniques (that had worked so well in marketing) to survey the workers to try to find out what was needed to satisfy them. It was discovered that the workers wanted "fair" wages, decent working conditions, honest supervision, and equal opportunity to progress.¹⁴ According to the company, this is what they wanted to give to the workers, and in fact, what the company intended to provide. The company also felt that the workers were already getting pretty close to what they wanted. One major task then was a selling campaign to make the worker cognizant of what he was getting and "who was providing it." Through year-long research, union literature is studied, employees' attitudes are sounded, compensation practices are analyzed, and then all the information and evidence is carefully sifted.

After the research is finished and the evidence weighed, the company then selects the proper time and makes the offer, voluntarily including everything that the research had indicated that should be in the offering. General Electric tried to insure that everything which was included measured up to what was right "by every reasonable standard."

The company stuck to its position, as was evident in 1953 when the union struck the Evandale, Ohio plant for nine weeks, and the Syracuse, New York plant for eight weeks. The workers came back to work on the company's terms. In November, 1954, the Bloomfield, New Jersey plant was struck for four weeks. The issue in this dispute centered around the "application of seniority to shop stewards." When the workers resumed work on company terms, management began presenting its position to the employees through letters, telling the workers that the company took the strike because it had to do what was right at all times. The company insisted on doing the right thing voluntary. The company stated that it did not have to be dragged :unwillingly" into doing the right thing, neither would it be pushed into doing the wrong thing. Through these letters, General Electric told the employees that it was the union officials who were "diluting" seniority positions through the union's demand for stewards, while the company was protecting the seniority system.

During the Syracuse strike, General Electric waged a war of nerves against the unions. The company placed two-full page ads in two local
daily newspapers each day for almost eight weeks. At the same time the company bought daily time over local radio stations. One newspaper ad suggested that the strikers should remove the labor leaders from office who had "sold them down the river."\textsuperscript{15}

As is seen from above, failure to come to terms sometimes results in a strike. The strike is not to be considered an autonomous event; rather, it is an integral part of the negotiation process.\textsuperscript{16}

The policy of General Electric in dealing with labor unions has become known as Boulwareism, named after the vice-president, employee and Plant Community Relations. Mr. Boulware's attitude is expressed in the following factors:

(1) Management has a tendency of going directly to the workers with its day-to-day problems. As a result, the union is often bypassed.

(2) Management tries to convince the employees that it is sincerely interested in their welfare and that it is doing everything within its power to promote the employees' welfare. By doing this, management hopes to win the employees' allegiance.

(3) Management determines its best offer, states that this is a final one, and sets a deadline for the union to answer. The union is also warned that there will be no retroactivity for any later settlement.


(4) The offer is also communicated directly to the workers and the public.

The philosophy behind Boulwareism is to minimize conflict—by defying the unions to make trouble. According to a vice-president of General Electric, the company makes it clear to the union that the company is willing to make changes that are justified by the facts. The philosophy is that all employees should know what is going on at the bargaining table—-to hear both the company's and the union's viewpoints on the issues. After the employees have heard and weighed the issues, the company feels that the workers should advise their union officials as to the stand they want to make.

It is felt that the key to power in labor relations is to win the allegiance of the workers. Holding this allegiance is important in long-range "preventive" measures in labor relations. Winning the workers' allegiance does not mean dividing workers and labor leaders by undermining the workers' confidence in the union. Allegiance can be won by demonstrating to the employees that the company can be depended upon on its own initiative; management does not feel it needs

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the prodding of the labor union to remind it of the need of the workers' security and good working conditions. This is a basic belief of Boulwareism.

One primary determinant of the labor relations atmosphere is the personality and philosophy of top management. McMurry feels that the top manager of a firm must be of a type person "Who can conform reasonably closely to what the workers want—a strong, effective leader who radiates security." Further he needs to be qualified to "symbolize" his enterprise both to the employees and to the public. Evidently, General Electric has been able to do an adequate job of this.

In order for management to minimize the basis for dissatisfaction it must have an aggressive counterbalance to "hold the line" with the union. This is provided through the Boulwareism type of tactics.

It has been said that Boulwareism is much more than a negotiation technique—it is a philosophy of labor-management relations. It involves year round open communications with employees so that they are adequately appraised of the fairness of the proposal.

For several years, General Electric held strictly to Boulwareism. It seems that now the company might be shifting its "hard-line" policy a little. Many firms and industries have fallen in line with the "new

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20 Carl Stevens, *op. cit.*, p. 34.
era" of collective bargaining. Under the new approach, management and labor committees meet continually—or at least several times—during the year. It is felt that the year-round committees are the best "preventive" that either labor or management have found.

General Electric in the spring of 1963 agreed to "prepact explorations of controversial bargaining issues with the International Union of Electrical Workers. General Electric still believes in firmness in its dealings with the union, but the fact that the company is willing to discuss issues away from the regular bargaining table denotes a turn in bargaining philosophy for the company.

The hard line as practiced fairly successfully by General Electric for several years is probably not suited for all firms. The General Electric approach takes "high level thinking and a wealth of information." The Boulwareism position is not one to be taken on the spur of the moment in response to some dislike of union activity. Any company considering this approach must be prepared to take a long strike. Failure may mean disaster, and the firm could be left in a far worse position than if it had not taken the stand. If a company makes a stand as immovable, and if the union can move it from its position, other announced "immovable stands" will not be taken seriously by the union.

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22 Weisenfield and Berkowitz, op. cit., p. 564.
Some firms may not have the available information to make intelligent estimates to support a hard line stand. Correct information is needed about what is happening in comparable industries in the area. Managements' stand must be thoroughly understood and supported by its agents for bargaining. Further, for a company to take such a stand, it must be able to "withstand stockholder and community pressure for settlement on some compromise term."23 Also, many firms are not multi-product firms with many plants as in General Electric. If a General Electric air conditioning plant is shut down, the light bulb factory can keep going.

Perhaps the real problem is selling the employees on the company's position. The effectiveness of the "hardline" cannot be determined solely on how many times the union acceded to the company's proposal after a strike, but rather the acceptance of managements' offer before a strike can take place. Or, after a strike occurs due to "mis-guided" union leader, how soon can the workers vote and get back to work?

d. "A Two-Pronged Approach." The Royal McBee Corporation first became concerned that their contract was running out some thirteen months before its expiration date in November, 1959.24

23Ibid., p. 565.

The company felt that a complex bargaining situation was ahead and every resource had to be marshalled. The main problem, as felt by the company, was stabilization of wages. Labor costs constitute a sizable portion of the total costs of a typewriter. The recession of 1958 had struck hard at the typewriter industry resulting in severe competition among the domestic manufacturers. Imports had also made an inroad into the market. The company could not stabilize its costs due to inflation and wage increases. Some efficiency had come about as a result of the company spending several million dollars on plant and equipment modernization.

In facing negotiations, the company therefore adopted a "two-pronged approach." One, the company conducted research to support their own demands and to estimate the cost of probable union demands. Two, the company directed a continuous communication program to tell the employees the company's story in some detail over a long period of time. This approach was determined by the negotiation objectives. As Peters has pointed out, "...no collective bargaining strategy can be successful unless it is directed toward a realistic goal." 25 Royal McBee felt they had a realistic goal.

The company launched both phases of the approach ten months before the contract expired. This program was designed "to coordinate

the over-all program in such a way as to take advantage both of the research ... and of the labor relations climate during any of the ten months ahead."26

Through the communications program to the employees, the company tried to put across the "facts of life" of the economic situation. The employees were made aware of: foreign competition; the need to reduce costs to remain competitively; the need for a full day's work; the need to make a profit each year to pay competitive wages, "finance new products, and provide a return to our stockholders," the necessity of maintaining quality leadership in the industry. Particular points that the company felt would have the greatest impact at that particular time were emphasized each month from January to November, 1959. The timing of these points had to be revised from time to time as the effectiveness of the plan was continually evaluated.

In disseminating the information to the employees, Royal McBee used the employee publication, letters to employees' homes, releases to TV, radio, and the press, visual aids, payroll insert, and mass distribution of pertinent information from outside publications. The foremen and supervisors were briefed by the vice-president and the negotiating team. These supervisory personnel were told what to discuss and how to discuss it. The foremen served as listening posts, and every one

26Berry, op. cit., p. 66.
of the 55 foremen reported every day as to the prevailing discussions and climate in their departments.

During this time, the research committee had been compiling data. There were three facets to the research program. (1) The company tried to anticipate any questions that might arise in pre-negotiation sessions of top management. Evaluations were made of past arbitration awards, sections of the contract that had restricted the company's operations were reviewed, and line management was asked to study the existing contract and to offer recommendations. The objective of this phase of research was to offer recommendations for company demands. (2) Information on the prevailing wage rate and non-wage benefits in the Hartford, Connecticut area and the typewriter industry were compiled. Charts were made showing various detailed aspects of earnings of Royal McBee employees as compared with employees in other companies. (3) The research team tried to anticipate and provide answers to the unions' demands. Arbitration cases that the union had lost in the preceding years were reviewed. The company also studied the contractual goals of the international union because it was felt some of these would be applicable to Royal McBee. The company knew of certain items for which the national union wanted special considerations; it was also known what the unions were seeking locally.

The company catalogued all the information so that it would be available on the spot to answer any demand or challenge the union might
make. In summary, the two-pronged approach by the management of Royal McBee was based upon the belief that it was important for the employees to accept, at least partially, managements' position and management could talk more authoritatively in answering union charges and demands. Since all this was a "pre-negotiation" effort, it remained for the actual bargaining to prove the efficacy of that effort.

Bargaining began on September 29, 1959 with 51 demands submitted by the union, countered with 26 demands by the company. Federal and State Mediators were called in during the latter stages of negotiations. By the fourth meeting, the only significant agreement that was reached was that both parties agreed to extend the contract indefinitely with either party having the option to terminate it with 10 days notification. During the ensuing six meetings the total demands had been reduced to 41. The company was evaluating its position. Possibilities which the company weighed were: (1) A strike which could place plans to introduce a new product early in 1960 in a perilous situation; (2) The indefinite extension of the contract which the union could terminate; (3) The present cost to settle a possible strike now as compared with costs of agreement which the union might be able to get at a more opportune time.

Eventually, each party reduced its demands to about 12. Then on December 18, 1959, the company gave its "final proposal." The union rejected the proposal as "totally inadequate." The union
committee then gave its notice of termination of the agreement and called a mass meeting to get approval to call a strike. Immediately, the company called meetings in groups of 500 each to state the reasons for its stand. However, the employees turned down the company's offer and authorized a strike. The mediators called separate meetings with officials of the company and the union, but the parties could reach no agreement. Finally, the mediators met with the union's international representatives, which resulted in an agreement for a three-year contract. The contract was ratified by the union membership; and although the union business agent did not think it a good settlement, the company felt that it met most of the company's long-range objectives and provided them with the flexibility they needed.

Thus, management's decisions were affected by the bargaining environment; and by managements' ability to interpret the elements of the environment, better decisions were made.

3. Bargaining and Arbitration

"The essence of management is the right and responsibility to make decisions and to act accordingly..." 27 The expansion of the various laws into wide areas of collective bargaining has restricted the "traditional managerial prerogative." Considerable managerial discretion

has been lost aside from the direct effect of the laws. Through the incorporation of certain clauses management has had to give ground. Loss of prerogatives may have come about through inept bargaining on the part of employers from situations where the union's power far exceeded that of the employer. There is yet a third means whereby the rights of management may be lost. This is through arbitration. Since compulsory arbitration has generally proved to be ineffective, this discussion shall concern voluntary arbitration.

If a problem arises and management and labor cannot agree to a solution, a third party (the arbitrator) may be called in to settle the issue. If the arbitrator rules against the employer, this means that a prior decision by management has been reversed. One author feels that the increased "loss" of managerial prerogatives may actually be more a threat of losing autocratic control rather than losing managerial functions. The ingenuity of managers rather than their functions is challenged. One way in which managements can maintain their initiative is to substitute understanding for condescension, and "alertness for ignorance."

Management looks upon the contract as a defense against further encroachment by the union--at least as long as the particular contract is in force. The union may look upon the contract as "crack" in

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management's door where it can further proceed to bring more items under its control. Management cannot usually win in arbitration in the sense of enlarging the sphere of its managerial judgment. If the employer loses the arbitration award, there is a reduction in his managerial "rights." If the employer wins the award, he gains nothing; he merely retains what he felt was his right in the first place.

Although there may be some objections to arbitration due to cost, time involved, and reliance upon other awards as guides, arbitration does have its virtues.\(^2\) As of 1960, it was estimated that about 90 per cent of all contracts had an arbitration clause to settle "disagreements over contract terms during the process of negotiation."\(^3\) When an arbitrator sets wage rates, he may arrive at a rate different from that of the market forces. As a consequence, employers sometimes express concern about submitting contract terms to arbitration. Yoder and Heneman point out that "most arbitrators take careful account of wages and working conditions in other similar markets..., also arbitration frequently occasions a more thorough discussion of relevant wage data than could have been expected in even protracted negotiations."\(^4\)

\(^2\)Hageman, \textit{op. cit.}, p. 32.


\(^4\)Ibid., p. 270.
It may be concluded that awards by arbitrators establish essentially the same terms as may have been arrived at from bargaining and perhaps a strike.

As a general rule, an arbitrator is brought in after the parties have reached an impasse in negotiation. In rare instances, the arbitrator might find the negotiations environment as Dr. Clark Kerr found it some years ago when there was class warfare on the Pacific Coast waterfront. Dr. Kerr was called in on a wage reopening case and asked the parties if they had negotiated before asking for arbitration. The two groups looked at Dr. Kerr in surprise and said, "negotiate?" Dr. Kerr explained that he had never yet arbitrated a case before it was negotiated. They agreed to negotiate. As Dr. Kerr started to leave the room, he was told to sit down because negotiation would not take long.

The waterfront employers association representative told Harry Bridges that the association did not know what the union was going to demand, but, "by God, the answer is no!" Then Mr. Bridges told the employer representative that the union had not made up their mind what it was going to ask for but they were not going to take no for an answer. Both men then turned to Dr. Clark and said, "Mr. Impartial Chairman, here is your case. We have negotiated." 32

Of coming importance in arbitration is the interpretation of management rights, and the issue of management rights is gaining in importance. When management rights were first being introduced in union contracts, it was felt by some that it was just so much "window dressing," and perhaps the only real value was for public relations purposes. However, of late, there is indication that there is more substance in the clauses than was first thought. Further, these clauses are becoming more important as having a bearing on the interpretation of other clauses in the contract. There is a feeling that certain rights which were given to the unions should be scrutinized more carefully and some of the gains formerly won by unions are being "subjected to hard bargaining." Among areas of recent attention are assignment of work and sub-contracting work which will be covered in more detail below.

In considering management rights, it might be well to consider the conflict in values arising from the functions performed by management and the union. When conflict develops over managerial prerogatives, it is not a simple matter of right or wrong in the particular situation. Conflict is almost inherent, arising from the roles that each party has to play.

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In many situations, management is an instigator of change. This is necessarily the case when management makes decisions in a changing economic environment. Competition forces management to respond to change. Chamberlain has pointed out that, "for management, change is the law of life."34 In some situations, however, it may be the union that is pressing for changes, while management wants things status quo.

Management may pursue fairly defined and concrete objectives. Management may want to introduce a new product; get a certain share of the market; build a new plant; introduce technological change; or other such pinpointed objectives. The unions may be seeking satisfactory states of existence for their members--a goal that is not quite so concrete. The paradox lies in the fact that both management and the union have to try to achieve their respective objectives through the same medium--that is, the business firm.

Not only may the objectives be different for the two groups, but the vocabulary may be a source of conflict. For instance, efficiency is some for which management strives. To them it means a good objective; a healthy organization. But to the union it might mean some method or technique to try to chisel the workers out of work in which they feel they have a vested interest. To the union, seniority means the best way to gauge ability. To management however, ability has a more affirmative, positive meaning.

34 Ibid., p. 187.
Many other words stir "conflict" in the same way. Consequently, from this arises the conflict in the roles that each group has to play in performing its functions. From management's point of view, one can understand why the union may interfere with management's objectives. The union is viewed as an intruder, unsubscribing to management's values, and frustrating in what management sees as a socially desirable objective.

Yet, it is au milieu of this conflicting situation that management must make decisions. There is no ready answer to the problem. Many managers would readily support the view held by Phelps. He says that if management believes that operation of an enterprise at maximum efficiency is management's responsibility and obligation, and in fulfilling those obligations management has to retain "in full measure the so-called prerogative of management, it has the right to refuse to agree in collective bargaining to restrict those right...to the extent the parties have not seen fit to limit management's sphere of action, management's rights are unimpaired by the contract." 35

Labor's viewpoint is of course different. In reply to Phelps' statement, Goldberg holds, "To suggest that management can make changes at will unless the contract specifically bars it is unfair and can

lead to placing so many bars in the contract as to make successful negotiation increasingly difficult and operations less and less flexible, with detailed consideration of the facts and merits of each case replaced by precise rules and regulations. "36

Perhaps what is needed is a middle-ground approach. Collective bargaining creates a continuing obligation and this obligation exists within the labor-management relations environment. Some progress has been made on the part of both sides resulting in part from improved understanding. The grievance procedure is one means of resolving some of the difficulties. Through this process, the role of the arbitrator will be a continuing one. Chamberlain feels that it cannot be assumed that the union position has to always be accepted when it tries to hold to practices of the past. New ways, procedures, and devices have to be tried to meet the legitimate demands and necessary functional positions of the parties. It is felt that the grievance procedure "can operate at its most effective level when there is recognition on the part of all the parties to the process that what is necessary to observe is both the logic of the rule and the logic of the situation."37

In the usual management's clause in a collective agreement, management has usually been able to retain the right to assign work—


37Chamberlain, op. cit., p. 191.
either through an explicit statement or an implied statement. These rights are subject to other provisions of the contract and, in some instances, result in a qualified right. In the assignments of tasks to employees, the general line of decisions by arbitrators has held that management retains the right to set work loads and crew sizes if there has been no specific limiting contractual language. Even so, most clauses state or imply that the determined load and crew size are subject to review for reasonableness. As a result, the concept of a fair day's work limits the right to assign work, and the unions usually use the grievance procedure to protest "excessive" work loads. Many times, these grievances result in a decision by the arbitrator.

Wallen has cited several limitations on the rights of management to assign work. These are: (1) Seniority district constitute such a limitation. Under industrial contracts, seniority does not constitute a "flat grant of work jurisdiction." Arbitration has frequently upheld incidental and temporary tasks in other seniority districts. (2) If transfer of jobs or portions of jobs from one seniority district to another such district is done to escape an inefficient or burdensome seniority system, it might be deemed a violation of the negotiated agreement. However, such a transfer may be upheld in arbitration if such

move was made in response to a "bone fide" change in operating conditions since the agreement was made. (3). For assigning overtime work, the unit in which the work is to be performed usually gets priority to perform the work. However, many arbitrators do not adhere rigidly to this priority if a worker from another unit is already working overtime and the job may be of short duration and unanticipated. (4) If the contract is silent on the point of assigning men outside the bargaining unit to work normally performed by unit men, and management does such, the arbitrators will usually uphold the decision if technology justifies it, or if such past decisions were sanctioned by the union, and if a unit worker is not deprived of work opportunity because of the decision. If the contract is silent on work loads and crew assignments, such decisions are usually reserved to management, but such actions may be subject to the aforementioned review of a "fair day's work."

The consensus of arbitrators is not unanimous regarding management's right to split jobs. Where the agreement is silent on the issue, some arbitrators have held for management, other for the union. In dealing with job changes, many arbitrators are concerned with changes in the wage rate, and not in the particular job change itself. 39

In recent years, interest has increased on the problem of subcontracting work, and dispute arising out of such work has also increased. Subcontracting, as the term is generally defined for labor management relations purposes, means the action taken by a company in arranging with some firm outside the company to perform certain work that could be performed with the company's own bargaining unit with the company's facilities. In order to reserve the right to subcontract many managements have refrained from referring to subcontracting in most of the collective bargaining agreements.

Of late, arbitrators have more and more viewed such cases in terms of the "implied limitations" theory. This theory holds that other provisions in the agreement may imply limitations on management's right to unilaterally decide on subcontracting work. In some cases, unions have been able to exact a share in decisions of this sort.

In general, most courts have found that where the contract was silent on the subcontracting issue, the issue was non-arbitrable. The Supreme Court in a 1960 decision dealing with the matter curtailed "non-arbitrable" decisions. For many years the courts and arbitrators held different viewpoints. One arbitrator, in researching cases on this problem, could not find even one instance where the arbitrator ruled that a subcontracting issue was "non-arbitrable." Rather, the

arbitrators make their awards on the merits of the case. Dash feels that in general, arbitrators will uphold management's decision to subcontract if a substantial number of workers in the bargaining unit have not been deprived of work because of the act. Further, such action must usually conform to post practice where the union has not made objections to the practice. Management can usually make such decisions with a fair degree of confidence if the decisions are not made in an attempt to evade substantial provisions of the agreements or to violate the "spirit of the agreement." Decisions to subcontract must also be dictated by the requirement of efficiency, economy or expedi tions performance and must not be "unreasonable, arbitrary, discriminatory, nor intended to harm, prejudice, or undermine the union."\(^{41}\)

If management expects its decision to subcontract to be upheld by an arbitrator; such decisions must be made in good faith with no intention to subvert the expressed terms of the contract. Dash also found that in some decisions ruled against management, regular work was subcontracted out--mostly maintenance type work. He also found that management's decision to subcontract certain types of permanent work was upheld by arbitrators.\(^{42}\) Mr. Dash's views are not unanimously

\(^{41}\)Ibid., p. 213.

\(^{42}\)Ibid., p. 214.
accepted. Some feel that the trend in arbitration is a reluctance to
hold that there are limitations in the contract.43

Certainly management is interested in efficiency, but it also
has the obligation to work within the agreement it has negotiated.
One thing seems certain from interpretations of some arbitrators. If
management wants to be sure that it has reserved certain rights, those
rights should be expressly stated in the collective agreement. Once
this is done, the union bargaining agent cannot complain over sub-
contracting. If these rights are not stated, an arbitrator may say,
"you negotiated with the union. You were aware that you might wish
to subcontract in the future. Until you negotiate that right, you do
not have it."44

The consequence of Supreme Court rulings in cases involving
arbitration is that a manager may have lost some rights which he
always assumed he possessed. Under this ruling, if a contract has
an arbitration clause, any dispute, not specifically excluded, is
arbitrable.

Some guides for management to retain its rights are: (1) Keep
and strengthen (perhaps through exclusion clauses) the right to initiate

43Stephen C. Vladeck, "Comment on Management Rights and Labor
Arbitration," Industrial and Labor Relations Review, Vol. 16, No. 2,

44Ibid., p. 220.
action, (2) Stay way from joint consultations, and mutual agreements, (3) "Retain managements' right to change schedules, methods, or materials of production." The companies should also rewrite many sections of the agreement, making clear which items are arbitrable, and which are not.45

Thus, it is seen that managerial decision making is affected by the environment of labor-management relations as embraced by the collective agreement. And if the agreement is silent on certain "managerial prerogatives," a third party may either confirm a manager's decision—or he may reverse it.1

In determining management's right to make certain decisions when such has not been contractually expressed, management cannot be sure its action will be upheld by an arbitrator.2 The latter's attitude seems to be well expressed by Bailer. He says:

It must be remembered that the presumption is that employees will be assigned only to work within their classification. Thus, the arbitrator normally expects the employer to demonstrate the validity of his actions in making an out-of-classification assignment. In the final analysis, the resolution of this general problem involves the threefold function of observing the terms of the contract, while regarding the desires of the employees for job security and proper rate of pay, and the desire of the employer for efficiency.46


4. "Unofficial" Union-Management Relations

Although the agreement reached in collective bargaining constitutes the formal "rules" to guide management-labor relations, there are "informal" departures from the strict terms of the contract. The following discussion is based on actual experiences of one writer gained through several years' work in various departments of three factories, both as a worker and as management. Mr. Dalton recognizes the limitations imposed as a participant-observer. The behavior in which he was interested was heavily guarded. But, even with the limitations, there were "discernible axes along which behavior moved."

One pattern of informal union-management relations stemmed from a tacit evasion of the contract. Although all plants were under contract with national unions (evidently negotiated at firm level instead of plant level) both management and labor tacitly sidestepped the provisions of the contract. Management and union headquarters frequently sent questionnaires to the plants trying to get information on problems. These reports were treated lightly because both management and union representatives at the plant level questioned the ability of top officials to know or care about plant affairs. One superintendent said that the plant manager and his assistant "have both said they don't give a damn what kind of arrangements are made with the union as long
as things run smoothly and it's kept out of writing." Union committeemen also admitted that a lot of things were done to get around the contract. One local union officer admitted that the superintendent had told him he did not care what arrangements were made, but if he (union officer) got into trouble, the contract would have to be followed down the line.

Lack of union-consciousness was another reason for the informal arrangement. In some cases, the workers showed a high degree of solidarity in terms of responding to strike calls. But on many matters that could be "negotiated" secretly, the workers supported actions that were advantageous to them. Usually, these covert dealings involved the union committeeman and a departmental superintendent. These two parties would often trade favors and often an "exchange structure" developed. As an example, many times workers would be reclassified into higher paying categories without having to comply with tests as called for in the collective agreements. In return, the grievance committeeman would not push "rotten" or "tough" grievances up the line. The grievance committeeman were re-elected because of their "political astuteness" rather than their opposition to management. The committeemen would "elect" informal leaders to be political whips to defend the

committeemen's actions. In return they were rewarded with favors from the informal relationship they had with management.

Managerial incohesiveness also accounted for some of the informal relationships. Sometimes the front line supervisors felt that they were abandoned as management by higher officials. As a result, these foremen would not handle grievances, but would push them on up to the next higher level manager. In another situation, one department superintendent would not give an "easy" test so that three workers might get reclassified. The committeeman took the case to the division head and claimed the tests were too hard. The division chief had two employees he wanted promoted, but they lacked seniority. Thus an informal agreement was reached whereby the three workers would be given tests they could pass, and the division head's two employees got a promotion.

Economy and production pressures sometimes caused management and union to evade the terms of the contract. At times, pressure from top management would put the squeeze on a first-line supervisor. Thus, he would be caught between top management and the union. The union prevented any "large scale productive coercion." However, the foremen would covertly reward those workers who put forth extra effort with higher paying jobs, easier jobs, and overtime in his own and other departments. Sometimes the committeeman would collaborate by denying that such actions were deliberate when suspicious workers inquired into the matter and by refusing to process grievances when they were filed on such issues.
The foregoing examples do not deplete such "informal" relationships as they existed in the three plants observed. And of course, there is no proof that such practices exist in all companies. It is apparent however, that labor-management relations environment goes beyond the formal union-management contract, and these "unofficial" relations are important in some situations as they affect managerial decision making.

C. Management-Labor Cooperation

A policy of union-management cooperation considers the union as an ally in improving the efficiency of the plant. In practice this is a two-way policy. The union is concerned not only with getting concessions for the members, it is also concerned with helping management provide the concessions. Under the union-management cooperation philosophy, both parties "create and maintain a positive planned cooperative program, a program designed to increase efficiency, productivity, and teamwork, and likewise to give greater security to the union and advantages to its members." 48

Participation on the part of the union is the one essential ingredient in this type of policy. Plans and programs are set to achieve

an arrangement whereby objectives of the company are "personalized by union members." With the development of a team "spirit" under this arrangement it is expected that the employee's perception of his role will be clarified and broadened so that he develops more interest and enthusiasm in his job.

There are many variations to union-management cooperation. In some instances it may approach a full partnership. In most cases, stipulated objectives are sought. Even though there are wide variations in union-management cooperation programs, it was recognized early that there were certain essentials for successful implementation and operation of these programs. A 1928 study outlined certain prerequisites:49

(1) All plans involve 'full and cordial' recognition of the union or unions involved as representatives in the bargaining unit.

(2) An essential setting for all such plans is a written collective agreement that includes provisions governing wages, hours, other working conditions, and a systematic procedure for settling grievances.

(3) Plans are based on willingness on the part of an employer to help the union or unions solve some of their problems in return for union cooperation in solving the employer's problems.

(4) Plans generally begin with an agreement to provide increased stability of employment.

(5) Plans most commonly emphasize as major objectives the reduction of waste and the development of greater efficiency in operations.

49 Ibid., p. 178.
(6) Plans usually establish formal procedure or machinery for promoting cooperation and maintaining the joint program.

(7) Plans usually include some means of appraising results and sharing the economic benefits gained through cooperation.

Many of these same essentials are still emphasized.

To a great extent, the policy of union-management cooperation undertakes a program that is somewhat akin to a partnership arrangement. Dubin has pointed out that this policy is essentially a system of joint consultation. Cooperation such as this begins with the full acceptance of the union and the collective bargaining process. These cooperative programs vary in the degree of consultation. On some issues the union may be consulted on most managerial problems, whereas in other situations, consultation may be limited to matters specifically affecting the employees. Many times cooperative programs are brought to fruition through management-union committee. This committee usually considers problems and suggests solutions.

During World War II, management-union committees performed many services and made many contributions to greater productivity. Programs designed to prevent or reduce absenteeism and increase efficiency were set up. Accident prevention was one of the common and

probably the most promising subjects of cooperation. Waste reduction programs seemed to be a fairly well suited subject for cooperation.

Although during World War II, labor-management committees accepted an important share of managerial responsibilities, many highly controversial issues were dodged. Matters of national interest were concentrated upon. Many "tough" questions went by the board as both unions and management sought to advance wartime production in a common cause of peace. When hostilities ended, these questions became important, and the unsettled issues were responsible in part for the decline of labor-management committees. As the economy became more "settled," and adjusted after the war, there was an increase, although not a rapid one, in union-management cooperative plans.

In 1949, Ernest Dale studied some 226 firms which had adopted union-management cooperative plans. Dale points out that "those subjects of cooperation are likely to be most successful where there is a high degree of joint interest and where standards of professional competence count heavily and can be checked or measured easily." There are some subjects that do not seem to offer as much success in


52 Ibid., p. 36.
cooperation as the ones mentioned above. Job evaluation programs are one such subject. Although completely satisfactory reports have come from job evaluation programs, the record of such achievements have not been uniform. "With job to evaluation, difficulties appear to reflect a failure on the part of both unions and employers to under­stand, insist on, and respect professional competence."\(^{53}\) In one study Ernest Dale found that joint responsibility in time and motion study and joint control of discipline programs were most likely to result in failure. Probably mutuality of objectives were more difficult to demonstrate.\(^{54}\)

The conditions which were prevalent at the time cooperative plans were launched seems to determine the varying degrees in co­operation. When the union takes the initiative in establishing plans, it usually will have a more dominant role to play. The garment industry where the unions sought such programs to protect the wage level of their members is an example. When the employer has been the initiator of such programs, e.g., programs to increase manual and machine efficiency, the role of the union is generally more limited.

Union-management cooperation plans are not intended to supplant collective bargaining. Rather, they are usually regarded as experimental

\(^{53}\) Dale Yoder, op. cit., p. 184.

\(^{54}\) Ernest Dale, op. cit., p. 38.
If both parties want cooperative plans to work, there must be mutual trust and confidence. Further, there must be well defined goals on which to base these plans, and there should be a clear agreement and understanding regarding the subject matter and degree of cooperation.

D. Possible Effects on Firm Continuity

The environment of labor-management relations varies from firm to firm. It cannot be exactly the same in all firms nor at all times within each firm. Forces, attitudes, and other factors change through time. Sometimes the environment is such that labor and management will cooperate to prevent a possible business failure. At other times firms may close a plant for economic reasons if management and the union cannot come to terms. Still in other cases, a firm may decide to close a plant rather than to deal with a union, while some firms may try to relocate in another area. Selected examples will show some ways in which the environment affects manager's decisions.

In order to forestall the possibility of closing an Akron plant of the Goodyear Tire and Rubber Co., the company and the local union of the United Rubber Workers agreed on a plan to improve the plant's competitive position. The plan called for the workers to accept the responsibility for operating equipment in "another location." Workers who were to lose their jobs as a result in the change were to be
plans--an adaptation of and an extension to collective bargaining.

Such plans represent the efforts on the part of labor and management
to realize the benefits from collective action while developing a
cooperative attitude on the part of management, unions, and workers.

As experiments, these plans are subject to some problems.

One such problem is mutual suspicion. One major hazard to
cooperative plans is skepticism and cynicism. Many times there is
disbelief on the part of one or more parties that the other party will
actually cooperate. Each side may sense a feeling of a subterfuge that
obscures "one-sided" objectives. The union may feel that manage-
ment's knowledge of union weakness may be used against the union
and information gained may be used as a leverage against the union.

Employers may feel that cooperative programs will only result
in the union putting more pressure on management and restricting or
taking over "managerial prerogatives."

In one study it was found that both union and management were
in disagreement on how much union participation there should be.
There was also disagreement on the value or degree of satisfaction
gained from present practice. Over a three to four-year period, the
parties had a tendency to widen the gap of agreement.

55 Milton Derber, et. al., "Union Participation in Plant Decision
Making," Industrial and Labor Relations Review, Vol. 15, No. 1,
reclassified. Although there was no actual threat that the Akron plant would close, management announced that it *might* have to close if adjustments were not made.\(^{56}\)

Alleged reasons for business failures are legion. Some of the failures may be due to "managerial" factors and others are attributed to "outside environmental" factors.\(^{57}\) Among the external factors attributing to the failure of a business enterprise is the labor union. In such cases (as far as management is concerned) the union forced the firm out of business.

As an example, consider the case of Buffalo Steel Corporation, in Buffalo, New York. In the decision to close the plant, management blamed the union for erecting barriers to efficient operation in the use of manpower.\(^{58}\) Although recognizing that the recession of 1960-1961 had an effect on prices and profits, a Buffalo Vice-President said that this was not the determining factor in closing the plant. The company had told the union that, "It would be forced to the wall in September (1962) because it was losing money." The company later made an offer...

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to stay open if the union would accept a fifty cents an hour reduction in pay. The union declined this offer. About this time a group of workers in the plant sought to oust the Steel Workers Union. This group was defeated by a margin of almost two to one in an N.L.R.B. election. The next day the company announced that the steel plant was for sale.

Joseph P. Molony, New York State Director of the Steelworkers, held the view that a temporary wage cut would not work and if a company depended on a wage cut to stay in business, it was already on the way out. Mr. Molony further stated that the company not only wanted to cut wages, but also to change some work arrangements resulting in the elimination of some jobs. According to Mr. Molony, if wages were cut in one company, other companies would be placed in a "non-competetive position." What Mr. Molony apparently failed to see was that by not accepting a wage cut in a particular company that company may be placed in a "non-competitive position."

The Buffalo plant of the Allegheny Ludlum Steel Corporation also closed in 1960 after the union failed to agree to a more suitable contract for management. A. F. C. Industries, once employing 3,000 workers, in Buffalo was closed in 1960 after the company experienced 17 Wildcat Strikes in two months. Also in Buffalo, the New York Car Wheel Company went bankrupt and closed the firm after it had spent several million dollars to improve the plant. Bankruptcy came after the Steelworkers Union called a long strike in 1958.
In these cases, rightly or wrongly, management blamed the unions for having to cease operations. In any event, it can be seen that the environment of labor-management relations affects managerial decision making.

In October, 1962, the N. L. R. B. held that the employer company, Darlington Manufacturing Company, was guilty of an unfair labor practice by closing its plant after a union had won a certification election. The board held that even if the union victory was not the only reason the company closed its doors and sold the equipment, it was one of the direct causes and by closing its doors and discharging the employees, the company was in the wrong.

The board held that the affiliated companies were so closely connected with the Darlington Company so as to constitute a single enterprise. The company (including affiliates) was ordered to pay all employees back pay from the time they were discharged to the time they found "comparable" jobs; to offer jobs to the displaced workers in other plants without loss in seniority or other rights; to pay transportation costs for workers so hired; and to place other employees (for whom no jobs were currently available) on a preferential hiring list.59

In a November, 1963, ruling, the U. S. Court of Appeals for the Fourth Circuit over-ruled that N. L. R. B. decision of 1962. The court

held that in cessation of business to avoid dealing with a union, the employer pays the price for it by permanent dissolution of business. The three-to-two decision stipulated that such action by management could apply only where the firm was going out of business permanently, but not for a temporary intermission to avoid dealing with a union. 60

At times, the management of a company may begin to look to other states or geographic areas in which to relocate the firm. Management may be promised cheaper labor, tax advantages, or other inducements if it will make the move. Relocation has become a troublesome and complex decision, and "The growing opposition of union and plant communities to companies planning to relocate elsewhere has caused many managements to review their decisions and to take a hard look at relocation schedules." 61 Courts have held that workers have "vested interests" in jobs they have held for a number of years. This right, as construed by the courts, does not end with the termination of the contract, even if his union ceases to represent him in bargaining. If the employer relocates his business, he usually has to give preferential offerings to the employees at the old location. Judge Fred W. Faess ruled (in a case involving a movement from Detroit, Detroit, 


Michigan to Lebanon, Tennessee) that "Collective-bargaining agreements grant employees certain benefits and rights that become vested in the sense that they cannot be unilaterally denied without the employees' consent."

It can be seen that the environment of labor-management relations does affect managerial decision making, whether the decision is to cease operations entirely, or merely to gain a more advantageous position in another location. The decision to move (or to go out of business) to evade dealing with unions generally will be considered an unfair practice. Decisions to move (or to cause operations) for economic reasons are not subject to bargaining, but in the case of a move for economic reasons, disposition of employees is a bargaining issue.

62 Ibid., p. 74.

CHAPTER IV

PUBLIC ATTITUDE AS AN ENVIRONMENTAL FACTOR

A. Public Attitude May Affect Decision Making

In Chapter II, public attitude and opinion were discussed as public policy formally expressed by the congress and the courts. Not all public attitude is expressed through laws, however. Yet, these attitudes which are not expressed through formalized public policy can have an important bearing on the decisions of managers.

Some of these attitudes will be covered in this chapter. Under general attitudes, decision making will be considered in terms of business enterprises seeking to build an image that will be acceptable to the public, and in gaining public acceptance of an idea. Attention will then be directed to more specific factors that affect managerial decisions. The Consumer Movement and the Marketing Concept will be discussed in terms of their effect on decisions. Although public policy has not been fully formalized through laws as yet on race relations, sufficient pressure has been exerted against business firms to affect managerial decisions. The environmental effects of race relations will be considered here as one facet of the public attitude.
1. General Attitudes

Many business firms are conscious of the fact that the ways in which the public at large, or any particular public, views the company can have far reaching effects as to the acceptance of a product, the labor relations policy, or of the company itself. This holds for business firms in general, and for individual firms in certain communities in particular. As one method of winning the public's favor, many firms have turned to Public Relations as one of the functions of management. It is appropriate here to define Public Relations, and to present some ways in which management has used public relations to gain the public's favor on selected problems.

Although public relations means different things to different people, it can be defined as the function (or process) of evaluating public attitudes and identifying with the public the policies and programs of an organization. Canarroe states that public relations means educating people in favor of your company; and in community relations, this means presenting the facts that your company feels the public should know in terms of their (the public's) point of view. However,

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all firms have public relations, good or bad; Conarroe's statement refers to good public relations.

Shortly after World War II, a manufacturer wanted to rebuild his main plant to produce chemicals. The plant, located near a large city, was over fifty years old. When the company announced plans to rebuild to produce chemicals, opposition from the townspeople developed. The city authorities quickly passed a zoning ordinance and would not allow the company to open a new waste disposal bed. The company called in a public relations firm to survey the community attitude towards the company. The results from the survey showed that the community regarded the company with general suspicion.

The public relations firm suggested that management invite the leading townspeople to the plant to see what the company produced and how it was produced. It was also suggested that the company pledge to landscape the new waste bed location so that it would not be visible as such, and to prepare the old waste bed so that it could be planted. Another suggestion was for the company to conduct a sustained campaign to tell the townspeople about the plans for waste disposal and to present plans at zoning hearings. The company followed the suggestions with success. Zoning regulations were abandoned, enabling the company to proceed as planned.  

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One point of trouble in community relations is air pollution. Pendray has suggested that management should take positive steps when its company is accused of polluting the air. First the firm should find out in detail just what the situation is—determine the real nature of conflict. Once a program has been started the company should tell the community what it has done and what it is now doing. Progress reports should be made as the program progresses. It is important to find out the real nature of the problem as a complaint about any one thing may actually be a complaint about the company in general.4

The Western Oil and Gas Association followed the above general plan in the Los Angeles area when the smog problem first became serious. In this case the newspapers published articles about the smog situation, accusing the petroleum industry of being the chief culprit. Committees began to be formed calling for immediate action. Ordinances demanded industry to install proper smoke control equipment. The Oil and Gas Association called in a public relations firm to find out the technical aspects of the problem and also to find out what the residents thought.

From a survey conducted by the public relations firms, it was found that only 7 per cent of the people felt that the petroleum industry caused the smog, but 92 per cent felt that the real cause should be determined

before any elimination program began. It was suggested by the public relations firm that the association should sponsor air pollution research and to let the public know what it was doing. Both of these suggestions were followed with the result that there is no immediate danger of local ordinances that could result in costing the industry millions of dollars.  

In making a decision to move a plant into a new community, a manager may be faced with varying degrees of resistance. The industrial firm in a community interacts with that community, and the public involved has a vital and legitimate interest in a new plant. In order to eliminate or decrease hostilities, some managements have worked out careful plans to allay community fears by releasing information before the move is made. The foresighted managers take into consideration the past history and local situation as to the receptivity of new plants, and plan their programs to create and maintain a favorable environment.

Among the industries that are concerned with the image projected in the minds of the public, perhaps banking has had to do more to present a favorable image. In general, bankers have borne the stigma of being distant and formal individuals. This view was supported in a

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5 Moynahan, op. cit., p. 27.

survey in Atlanta, Georgia. The survey also indicated that the public felt the need to make banker's seem more "warm, human, and friendly." 7

Marston states that the poor image of banks comes in part from a legacy of another generation "compounded out of folk tales of flint-hearted bankers and unhappy memories of the great crash of 1929-1933 ...." 8

Faced with this general attitude of the public, the banks have been concerned with building a better image. Some ways by which management has tried to overcome this image are the following:

(1) going to schools and colleges and talking with the student groups; instructing lower grade students on how to fill out deposit slips,
(2) requiring managerial personnel to become members of civic clubs,
(3) sponsoring various service programs, (4) modernizing buildings, and (5) requiring bank officers to dress in more conventional business suits rather than black suits reminiscent of an undertaker. 9

In a somewhat different vein, General Mills had to overcome difficulties when it bought out the Latham Company in England. Latham Company made cake mixes using dried eggs. When General Mills took

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8 Marston, op. cit., p. 76.
9 Private conversation with a bank official on February 7, 1963.
over operations, its cake mix did not sell. For one thing, the housewives in England thought the old package too drab. Further, the idea of using dried eggs did not go over well. Too many Britons remembered the lean years of the war. In addition, certain technical problems had to be worked out.

The English cake pans were too small for the regular American size box of cake mix, and measurements of the English system differed from those in the United States. These problems were solved when General Mills adjusted recipes and measurements to fit the metric system. A new cake mix was marketed calling for the addition of a raw egg. Even after these details were taken care of, the product was a slow mover.

General Mills and the British branch of Barton, Batten, Durstine, and Osborne then launched an all-out public relations plan. A British "Betty Crocker" was created under the name of "Sheila Johns." Banquets were held in the best hotels with the top chefs representing General Mills. As a result of the public relations program, General Mills stated that sales were moving satisfactorily. Thus, with public relations, General Mills is expecting that the public attitude will turn in the company's favor.

At times, when certain events of factors in the environment happen, there is no discernable effect either upon the public or upon business decisions. At other times, there may be a noticeable effect. In 1953, an event of the latter type occurred. In that year, the results of a scientific study on cigarette smoking and health was released. The report charged that smoking harmed health.¹¹

Domestic consumption of cigarettes dropped from 394.1 billion cigarettes in 1952 to 386.8 billion in 1953 to 368.17 billion in 1954.¹² This was the first decrease in cigarette consumption since 1935. The tobacco industry established the Tobacco Industry Research Committee and later (1958) established the Tobacco Institute. The Research Committee established the 'Scientific Advisory Board' in June 1954 and the latter was given complete freedom to sponsor research on the relation of smoking to health. After the Research Committee was in operation for one year, cigarette consumption began to climb, and by 1961, sales had reached an all time high. It is difficult to say to what extent the sales increase was due to the committee's efforts. The point of emphasis is that the change in the public attitude toward smoking caused the tobacco managements to act fast. The Tobacco Institute


¹²*Loc. cit.*
maintains a continuing program to "create a better public knowledge and understanding of the tobacco industry and its economic and social importance." 13

In January, 1964, United States Surgeon General Terry reported that a government study showed that cigarettes are a major cause of lung cancer and chronic bronchitis. At this writing, there is no evidence that the latest report caused a noticeable decline in cigarette sales. Perhaps the reason for continued high sales is the switch to filter cigarettes. Filter cigarettes now account for about 58 per cent of total cigarette sales. 14

Although the cigarette industry is concerned, there is little likelihood "that the surgeon general's report will have any catastrophic economic effects." 15

The immediate reaction to the report is that the tobacco industry is placing hope in better cigarette filters. Researchers are now working on ten kinds of filters to help make smoking safe. The outlook is that there will be several new brands of cigarettes on the market by the end of 1964, emphasizing charcoal filtration. 16

13 Ibid., p. 53.
14 "Better Filters for Cigarettes is Industry Aim," AP by-line, the (Baton Rouge, Louisiana) Morning Advocate, January 20, 1964, p. 9A, Col. 1.
16 "Better Filters for Cigarettes in Industry Aim," loc. cit.
The foregoing selected illustrations have shown in a rather general way how public attitude is a factor to reckon with in making decisions. Building or protecting the company image was helped by public relations. In the following section, selected examples have been chosen to present more specific environmental factors which have an impact on the decision-making process.

2. Some Specific Factors

Innumerable references could perhaps be made to specific instances where public attitude has influenced management's decisions. Many such decisions are made with no apparent effort to build the image of the business firm as was evident in the foregoing examples. Certain of the following factors are unique in that they are non-recurring (at least not often), such as the assassination of the United States President. In other situations, certain factors may occur from time to time covering, in general, related subjects. Selected examples of these two types of factors are considered below showing to some extent the influence upon the decisions of managers.

a. President Kennedy's Concern Over Steel Prices. In the fall of 1961 and again in the spring of 1962, President Kennedy wrote the twelve leading steel companies asking them to not raise prices so that more stability in the general price level could be had. The reason the president had written the steel companies to hold their prices was
that the steel industry is the bellweather industry. That is, the general price level tends to follow the price of steel.

Evidently, the president was confident that the then current steel prices would be maintained. On Wednesday, April 11, 1962, United States Steel, followed by other major steel companies, announced a rise in steel prices—much to the surprise of the country. Mr. Roger Blough, chairman of the Board of Directors of U. S. Steel announced to President Kennedy in an interview that U. S. Steel was raising its prices.

President Kennedy felt that the steel firms were putting self-interest above national interest and in a televised speech the afternoon following the announcement, President Kennedy said, "... The American people will find it hard, as I do, to accept a situation in which a tiny handful of steel executives whose pursuit of private power and profit exceeds their sense of public responsibility can show such utter contempt for the interests of 185 million Americans..."\(^{17}\) Within 48 hours, on April 13, 1962, U. S. Steel recinded the price rise.\(^{18}\)

Thus, the effect of "public" attitude in this case had a tremendous impact on the steel management. In this particular situation the impact was perhaps caused more by the public's power than by their attitude.

\(^{17}\)The Storm Over Steel," *Business Week*, April 14, 1962, p. 32.

From Washington came personal pressure on Inland Steel; legal pressure on U. S. Steel and other companies; economic pressure from the Defense Department—Secretary McNamara threatened loss of government contracts to price increasers; personal negotiation between Chairman Blough and other steel officials and Secretary of Labor Goldberg and Mr. Clark Clifford. Inland Steel had previously announced it was not going along with the price rise, and during the negotiations above, Bethlehem Steel announced its price revision.

Many felt the public interest was being carried too far. President Kennedy's September, 1961 letter to the steel companies was called "Blackmail." When President Kennedy was asked about charges that he had attempted to set prices by fiat he replied that "the Administration had simply supported the public interest." Public opinion, presumably through President Kennedy as spokesman, greatly influenced the decisions of the bellweather industry.

b. Stock Market Reaction to Death of U. S. Presidents. The New York Stock Exchange has reacted in different ways after the deaths of various U. S. Presidents. It may be that other factors were responsible in part for the market's behavior. Certainly, the confidence


20 "'No Room for Ill Will,'" Business Week, April 21, 1962, p. 25.
in the U. S. economy through, or in the absence of, leadership by the president seems to be expressed in the attitude of the public.

During the two days following the shooting of President McKinley on September 6, 1901, stock prices dropped 5.5 per cent, and through irregular movements dropped "to 8 per cent below September 6 level." When President Harding died in 1923, stocks held strong at first, then rose for a month. At the news of President Roosevelt's death in 1945, "stock prices immediately moved upward."22

At 10:30 a.m. on November 22, the day President Kennedy was shot, the Dow-Jones industrial average stood at 734.00. By 1:00 p.m. the Dow-Jones average had risen 1.87 points. However, just sixty-seven minutes after the shooting was announced, the Dow-Jones average had plummeted to 711.49. At this time the exchange closed operations. In just 40 minutes, the stock prices fell 3.3 per cent.23 On November 26, the stock exchanged was reopened, the Dow-Jones average climbed to 743.52.24


22 Loc. cit.


24 "When Presidents Get Sick or Die--Impact on the Stock Market," loc. cit.
It can be seen that an event such as the death of a president can have an effect of decisions of managers (it is realized that not all stock bought and sold was done by businessmen; individuals as well were affected).

Perhaps a more profound effect of President Kennedy's assassination was felt by the Board of Governors of the stock exchange. Wall Street first got the news of the shooting at 1:42 p.m. on November 22. A quorum of seven out of 33 governors was assembled by 2:00 p.m.; and at 2:07 p.m., the vice chairman of the board announced on the floor that the exchange was closed. Because of the almost financial debacle, "The New York Stock Exchange is now seriously reviewing its procedures to permit instantaneous closing of the market under clearly extraordinary circumstances."25 It is expected that the constitution of the New York Stock Exchange will be amended, making provisions for a small executive committee to be empowered to act at all times when such times may call for drastic action.

c. Reaction of Businessmen to Observance of President Kennedy's Funeral. It would be impossible to assess the millions of reactions of businessmen to the death of President Kennedy. Neither could one estimate the numerous reactions of businessmen to the idea of closing

business operations in memory of, or respect to the president on the
day of the funeral. Some business firms such as banks closed all
day the day of the funeral. Other business firms such as some grocery
stores, drug stores, and variety stores closed from 11:00 a.m. until
noon. Still others did not close at all. It may be assumed that
emotions played a greater role than did a general attitude toward
the observance of President Kennedy's funeral. When one business
establishment (a service-firm) was called the day of the funeral to see
if the firm was open, the employee answering the phone stated that the
firm was open and that it was not the firm's owner who had been killed.

Thus, it seems that managers react to certain environmental factors
and the values they assign to them.

B. What Customers Demand is Important

Among the attitudes of the various publics which a business firm
faces, perhaps none are felt as strongly and directly by the business
managers as are the demands made by the customers. This section will
consider the attitudes of the consumers as expressed by the Consumer
Movement and management's response to the movement, and the effect
of the Marketing Concept on managerial decisions. Except where noted,
material for this section follows Sorenson.26

26 Helen Sorensen, The Consumer Movement (New York: Harper
& Brothers, Publishers, 1941).
1. The Consumer Movement and its Effect

a. Early Consumer Efforts. Many of the consumer groups in America had their origin in the nineteenth century. Some of these early groups were established to use their buying power to improve labor working conditions. The American Home Economics Association, formed in 1908 worked to establish standards to enable the consumer to make wiser purchases. Many groups sought to protect the consumer from patent medicine frauds; to improve sanitary conditions in retail stores; and to reduce prices of certain commodities, such as storage eggs being sold as fresh eggs. Although during the early years of these movements woman's suffrage had not been granted, many women pushed for legislation to protect the consumer.

In Massachusetts, shortly after World War I, a "Commission on the Necessaries of Life" was set up. This was a state activity set up for the benefit of the consumer. One of the Commission's main objectives was to prevent racketeering. Immediately after the fuel and food commission was inactivated, a member of the "Life" Commission went to Washington, D. C. and obtained a large supply of surplus stores which were sold at prices lower than the current prices. The Commission took credit for reducing the price of anthracite coal and other prices.

During the 1920's, there began a widespread demand for standards and information about goods. Consumers were discontent—sometimes puzzled and confused. With little or no knowledge of what materials
went into the commodities and no way of comparing the various best products, the buyer-consumer were faced with Caveat Emptor.

Many of the consumer efforts were sporadic, but the experience of the early efforts gave momentum to the movement when the general discontent was crystallized by the book, *Your Money's Worth*, published in 1927. After exploring the wonderland of the consumer market, authors Chase and Schlink made a plea for impartial testing agencies, and standards for staple goods. Consumers were urged to promote these objectives through individual and organized effort. Chase and Schlink emphasized that:

> It is the customer's move. If he wants to leave wonderland there is a way out, and the clear possibility of drastically reducing the cost of living. He can get his money's worth if he is willing to organize to get it. The market always responds to organized pressure. Pending the coming of organization, the individual can create no little nuisance value in the right direction, and inform himself besides, by adopting some... suggestions.27

Following this, many suggestions were offered to aid the consumer.

Two years after the publication of *Your Money's Worth*, and after popular demand aroused by the book, Chase and Schlink established the first consumer testing agency. The Consumers Club in New York City with Chase directing the technical operations and Schlink as the

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Treasurer had as its slogan "First Aid to the Consumer." There was a call for advertisers to know about the consumer protection bodies such as the Consumers Club.28

Mr. John W. Darr, speaking from the producer's angle said "Business and industry, we believe, come much nearer knowing the needs and the desires of the consumer today than can any self-appointed consumer guardian."29

The consumers were not so sure of this as the persistence of the depression made the consumers more cognizant of the need to purchase more carefully. It was estimated that women did 90 per cent of the buying and they become quite familiar with dresses that shrank, mislabeled fabrics, children's suits that would not fit, and food that cost too much.30 Consumers wanted something done about the problem. As Reyer pointed out in 1938, the consumer was interested in getting her money's worth, and "Department stores and magazines are contributing to the analysis of consumer education and shaping their policies accordingly."31


During the 1930's and the heightening pressure from consumer groups, "The most immediate reaction to consumer criticism and demands was an attempt to discredit the groups felt to be most responsible for the new consumer consciousness..."32

b. Reaction of Business. Consumer groups and their leaders were attacked on many fronts. The Consumer Division of Crowell Publishing Company campaigned against the movement. Others called the movement radical, attacking the foundations of the national. Being antagonistic to the American way of life was another charge levied against the consumer movement. Hostility was also roused against consumer education; in some cases in the form of attacking textbooks in the schools. Action was also aimed at eliminating any recognition between the consumers and producers. The public relations function of business began to extoll the "virtues and essential functions of business enterprise in American life, sometimes giving partial recognition to consumer demands, sometimes ignoring them altogether."33

A theme of "mutuality of interest" was played up by business. Many extensive campaigns were undertaken to convince the consumer that what helped business helped him. These efforts of businesses were attempts to nullify the efforts of consumer movement groups by appealing


33Ibid., p. 163.
to individual consumers. In 1939, the Associated Grocery Manu-
facturers of America recognized the inevitability of meeting with
"borderline" groups neutrally, but the "radical" groups would be met
with hostility.

The consumer leaders were concerned about the attempts of
business to gain control over the consumer movement, and by which
businesses attempted to disguise their propaganda and advice. To the
extent that such moves by businesses succeeded, they held what might
be termed a "captive consumer movement."

Some businessmen at first regarded the consumer movement as a
"passing fad of idle clubwomen," who had temporarily taken to pro-
testing about their purchases as a diversion from their bridge.34 Among
these groups of women were: (a) the General Federation of Women's
Clubs with almost two million members, (b) The National Congress of
Parents and Teachers with about 1,877,000 members, 60 per cent of
whom were in small towns, (c) The National League of Women Voters
in almost 600 communities--mostly a political organization, (d) American
Home Economics Association. This group of 11,000 members was per-
haps the smallest and strongest group, (e) American Association of
University Women with about 50,000 members--all college graduates.35

34 Sorenson, op. cit., p. 179.
35 Walker & Sklar, op. cit.
Some of the groups pushed for product information and standardization while others conducted courses in prices, specifications, and advertising.

In time, businessmen came to recognize the consumer movement as one of the most important forces of the environment within which they had to operate. Many of the business trade magazines and general business periodicals discussed the importance of the movement in 1939 and 1940. On different occasions, businessmen recognized the right of the consumer to organize and accepted the movement as "a natural economic phenomenon." In the spring of 1939, Mr. Edgar Kaufmann, president of the Kaufmann Department Stores, Inc., of Pittsburg, Pa., stated that he believed that the consumer organizations were strong enough to force the retailers to deal with them. Mr. Kaufmann believed that it was the duty of retailers to make an effort to understand the needs and problems of the consumer.

Many sellers welcomed the opportunity to work with the consumer groups. Considering some demands of the consumer may be advantageous to the retailers in that legislative action might be forestalled. Retailers promoting private brands may want the consumers to inquire about specifications and prices. Specifically, a mail order firm may advertise its own brand of aspirin at a much smaller price than an accompanying advertisement of a nationally advertised brand. Many retailers feel that mounting costs caused by returned goods could be decreased if the purchaser was
better informed as to what reasonable performance he could expect
from a product.

Committees were set up representing consumer and retail groups
including, where appropriate, manufacturer's representatives. Many
department stores set up consumer-retailer relations programs. The
program as adopted by Sears, Roebuck and Company is an outstanding
example of such a program. From the latter part of 1930, Sear's pro-
gram has been closely tied with the National Consumer-Retailer Council.

Sears had its own Consumer Council. As early as 1930, the consumer
education division of Sears developed and showed many educational
exhibits to various groups of consumers. Part of the educational aids
consisted of tags that labeled the product giving details about the
materials such as thread count and breaking strength for sheets.

Teaching specifications became an important part of Sear's program.

After the Consumer Movement began pushing for specifications
on the product label, the Chatham Manufacturing Company started using
such labels when it started manufacturing sheets. In 1935, when
Chatham sheets appeared on the market, the company received com-
plaints from the old line executives of competing companies. Managers
from other companies felt such information on labels would make selling
harder and would require more intelligent selling. After conducting con-
trolled experiments, Chatham felt specification labeling was well worth
it, and soon extended the specification labeling to the blanket line.
Chatham management realized that specification labeling was not a substitute for advertising effort. However, they did improve retail selling and it also put management on the spot to maintain uniformity and quality.  

As mentioned above, one of the demands of the consumer movement was standardization and correct labeling of products so the consumer could differentiate among products. It was not until the latter part of 1936, that retailers and representatives of the consuming public met to discuss standards in the retail trade.

The Advisory Committee of Ultimate Consumer Goods of the American Standards Association met in September, 1936. This committee consisted of representatives of the federal government, the National Retail Dry Goods Association, and an advisory committee representing five national consumer organizations.

This group made plans to develop a dictionary of terms used in retailing which would describe various types, construction, finish, and performance of merchandise. Sorenson pointed out that this plan failed to materialize. Another plan called for developing a workable system of sizes for children ranging from one to 14 years of age. Research in measuring 100,000 children was carried out by the U. S.

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Bureau of Home Economics. The Association of Consulting Chemists and Chemical Engineers called for a valid "certification system," because this group felt that many so called "certifications" were bringing the approval system into disrepute which resulted in hardships to responsible sellers.

There was a sudden change of attitude on the part of many retailers in regard to this type of work and to the consumer movement. \(^{37}\) There was an increase in the number of stores with testing laboratories and an increase in the use of independent or government laboratories. Firms using technical endorsements realized great gains in sales. One mail order house executive stated that "every reference to a specification has resulted in increased sales." \(^{38}\)

Stores seemed to recognize that they had been missing a "good bet" by not cooperating sooner. And it was this recognition of the attitudes of the consumers that, at least in part seems to have led to the so called Marketing Concept.

2. The Marketing Concept and Managerial Decisions

   a. Definition of the Marketing Concept. As business administrators become increasingly aware that a business organization is essentially


\(^{38}\) Loc. cit.
a marketing organization, more emphasis is given to the consumer and his needs and wants. From this increased awareness a new way of business thinking seems to be evolving. This new way of thinking is called the marketing concept. No one can say exactly when this concept first began, but it has been only within the past decade or two that increased emphasis has been given this concept.

There are two fundamental beliefs upon which it is generally agreed that the marketing concept is based. According to Stanton these beliefs are: "First, all company planning, policies, and operations should be oriented toward the customer; second, profitable sales volume should be the goal of the firm."39 The marketing concept is a philosophy—a philosophy that holds the customer's want satisfaction as the justification of the company's existence. All of the operations and functions in a business enterprise must be devoted first, to determining the customer's needs, and second, satisfying these needs while making a reasonable profit.

General Electric, one of the first companies to recognize and put the marketing concept to work, recognizes that marketing is a fundamental business philosophy.

This definition recognizes marketing's functions and methods of organizational structuring as only the implementation of the philosophy. ... Fundamental to this

philosophy is the recognition and acceptance of a customer-oriented way of doing business. Under marketing the
customer becomes the fulcrum, the pivot point about which
the business moves in operation for the balanced best
interests of all concerned.40

The marketing concept has also been defined as "a corporate
state of mind that insists on the integration and coordination of all
marketing functions which, in turn, are melded with all other corporate
functions, for the basic objective of producing maximum long-range
corporate profits."41

Two factors seem to stand out in the marketing concept; a state
of mind and coordination of all functions. The marketing concept and
marketing are not two sides of the same coin. They are entirely
separate considerations. The marketing concept is a philosophy or
a "cause of business thinking," whereas "marketing is a process...
of business action."42 The marketing concept is put into effect
through marketing management. That is, marketing management plans,
organizes, coordinates, and controls the activities involved in imple-
menting the concept. As mentioned above, the marketing concept is
evolutionary. To show how one company finally arrived at the concept,

40Fred J. Borch, "The Marketing Philosophy as a Way of Business
Life," The Marketing Concept: Its Meaning to Management (New York:
American Marketing Association, Marketing Series No. 99, 1957),
pp. 3-4.

41Arthur P. Felton, "Making the Marketing Concept Work,"

42Stanton, op. cit., p. 12.
the experience of the Pillsbury Company will be considered as reported
by Keith.\textsuperscript{43}

b. An Evolution of a Marketing Concept. The theme at Pillsbury
is, "Nothing happens at Pillsbury until a sale is made."\textsuperscript{44} This state-
ment expresses their marketing concept. The realization that brought
this concept is analogous to Copernicus' discovery that the sun,
instead of the earth, is the center of the universe. In the sixteenth
century astronomers had a difficult time predicting the movement of
the heavenly bodies. They contended that the earth was the center
of the universe. Copernicus proposed that the reasons their calcula-
tions were off was because the sun was the center of the universe.
Although Copernicus' theory raised much controversy, Galileo later
put the theory to work. In much the same way Pillsbury came to
realize that the center of the business universe was the customer
and not any firm or industry. This realization by Pillsbury came only
gradually after two stages in the company's history.

The first stage was the production stage. From the firm's founding
in 1869 until the 1930's, Pillsbury was production oriented. The idea of
the formation of the company came from the availability of wheat and
close proximity to water power—not from the proximity of market areas
or consumer demands.

\textsuperscript{43}Robert J. Keith, "The Marketing Revolution," \textit{Journal of

\textsuperscript{44}Ibid., p. 35.
The philosophy of Pillsbury at that time might be expressed as,
"We are professional flour millers, blessed with a supply of the finest North American wheat, plenty of water power; we produce flour of the highest quality. Our basic function is to mill high-quality flour, and of course (and almost incidentally) we must hire salesmen to sell it, just as we hire accountants to keep our books."45

The second stage of the development was oriented toward sales. In the 1930's, Pillsbury, for the first time began to be conscious of the consumer's needs and prejudices as a key factor in sales. During this time the company became aware of the importance of dealers, wholesale and retail outlets. The philosophy of Pillsbury at that time seems to have been:

We are a flour milling company, manufacturing a number of products for the consumer market. We must have a first-rate sales organization which can dispose of all the products we make at a favorable price. We must back up this sales force with consumer advertising and market intelligence. We want our salesmen and our dealers to have all the tools they need for moving the output of our plants to the consumer.46

This was perhaps the beginning of the marketing concept at Pillsbury.

A third stage of this development was oriented toward the market. Toward the beginning of the 1950's, Pillsbury entered into the marketing

45Ibid., p. 36.
46Loc. cit.
era. With the addition of cake mixes and other products from research, the company faced for the first time the necessity of selecting the best products. The company realized they needed a set of criterion for choosing the right products to manufacture and an organization to maintain these criteria. The management function of marketing was selected to direct and control all other corporate functions from production to distribution.

The criteria developed to determine what products the company would produce were nothing more than the criteria of the consumer. The purpose of the company was reoriented from producing flour to satisfying the consumer needs. The current philosophy at Pillsbury is, "We make and sell products for consumers."47 Pillsbury came to realize that neither it nor any other company was the center of the business universe. That space was already occupied by the consumer.

As a result of Pillsbury's marketing concept, marketing permeates the entire organization from the inception of an idea for a new product through development to the ultimate consumer. To the company, "marketing begins and ends with the consumer."

Other companies have had similar experiences in the evolution of the marketing concept. The change in philosophy has gone beyond considering the consumer in terms giving them what they want. This new

philosophy has had an impact on the decisions of managers in terms
of restructuring the organization to meet the needs of the consumer.

c. Some Changes in the Marketing Function. From a 1956
study conducted by the American Management Association on marketing
functions, one important factor seemed to stand out—selling and
marketing functions are changing.48

One of these changes is that corporate organization is being
restructured. Most often this involves an expansion of personnel
within the organization. Status for the marketing function is being
enhanced with closer integration with other areas. Also, changes in
personnel and job titles are being made to reflect the change. The
new associated concepts are even more significant as new functions
arise and different corporate alignments are made. Individuals with
new backgrounds are being employed more and included in this area are
new qualification and specialized knowledge. Although still few in
number, staff psychologists, statisticians, and cost analysts are grow-
ing. Staff specialists are now more numerous and important in marketing
research, sales training, and merchandising.

Into those areas of management that traditionally depended on
hunch and intuition are being introduced objective techniques and

48 Henry Bund and James W. Carroll, "The Changing Role of the
Marketing Function," Journal of Marketing, Vol. 21, No. 3, January,
1957, pp. 268-325.
measuring devices, and marketing personnel are being more systematically trained. Emphasis on administrative ability and in human relations is growing, because as marketing broadens its scope more direction and coordination effort is needed to weld the activity of the various areas. Another evidence of the increased emphasis on administrative ability comes from the need of the marketing man to work closely with and across departmental lines, such as inventory control in conjunction with purchasing and production.

It is generally conceded that the manager of marketing today needs conceptual skills in order to integrate the various aspects of marketing with the other functions. The American Management Association in its book, The Marketing Job,\(^{49}\) outlines some responsibilities of the New Marketing Manager. According to The Marketing Job, the basic overall function of the marketing manager is to be responsible for the conduct of the marketing function efficiently and profitably. In carrying out this major function, the manager must develop a marketing policy in line with the philosophy and objectives of the company.

Part of the manager's job entails building a rigorous sales force—not a group of order takers. The sales force can and should be a vital link in the delivering of "a standard of living." In addition to

building the sales force the marketing manager is also concerned with developing a continuing research program. Research is the function that is moving fastest toward the new and expanded concept of marketing.

Analyzing and interpreting data in terms of both short-range and long-range forecasts is another responsibility of the marketing manager. This involves developing detailed sales plans and budgets which will represent the thinking and programming at all levels.

Part of the manager's job is determining the channels of distribution for the company's product; further, he is responsible for establishing a sound pricing policy and for setting prices guided by this policy. General policy control over sales promotion and advertising also come within the purveyance of the marketing manager.

It is also the task of the manager to encourage good employee relations within the marketing group. It is up to him to develop a communications network for the promotion of group morale, always stressing the importance of the customer.

The foregoing are some of the responsibilities of the marketing manager today. These responsibilities will vary in degree in the various companies. This, of course, does not mean that the top marketing manager will handle each of these tasks himself—such would be an impossible task. He must delegate duties to others in the performance of the greater task.
No matter how thoroughly the marketing concept may permeate company management, marketing people do not operate in a world to themselves. They must work effectively with other groups at all levels in those areas where marketing overlaps manufacturing, engineering, research and development, finance and general management. 50

It was mentioned above that General Electric was one of the first companies to put the marketing concept into practice. In order to do this, the company underwent an organization restructuring. At General Electric, product development now comes directly under the marketing manager. This manager is responsible for planning products; he makes requests for production scheduling; and is responsible for controlling the finished inventory. Those at General Electric who work under this set-up feel that the reorganization has solved a lot of problems. The general consensus seems to be that those who adopt the new plan of the marketing concept feel that it is the cornerstone of the total marketing planning effort. 51

In considering the evolution of the marketing concept and its effect upon organizational change, a look at two organization charts will show a general pattern of reorganization. 52

50 Ibid., p. 6.
52 Figures 4.1 and 4.2 are from Stanton, op. cit., pages 14 and 17, respectively.
Figure 4.1 represents an organization in which marketing activities are fragmented. This type organization may represent the first stage in "the evolution of marketing management." As seen from the chart, there is no marketing department and under the sales manager there is only a field sales force. Product planning and physical distribution, as well as possibly marketing research, are under the production manager. As a company becomes more involved in the marketing concept, marketing is viewed more broadly with resulting organizational changes. For a company fully accepting and applying the marketing concept, the organizational restructuring may be reflected as that of figure 4.2.
Under this type of organization, all the marketing activities are integrated under the marketing manager. It can be said that, organizationally, the company accepts the marketing concept. The marketing concept cannot be brought to full fruition by organization alone. The organization reflects and seeks to carry out the marketing concept.

Further, a company cannot become customer oriented by edict. The tone of entire organization reflects the philosophy of top management; thus, for a firm to fully accept the marketing concept, top management must first accept it. As one industrial executive so succinctly put it:
There can be only one marketing head in any business and that must be the president. He can develop a mood, an atmosphere, and an esprit de corps reflecting the pre-eminence of the customer that permeates every nook and corner of the company.53

It can be seen from the foregoing that what the customer demands is an important environmental factor that has influenced the decisions of many managements. This influence has been translated into a new philosophy in many cases, and management has made organizational adjustments to carry out that philosophy.

C. Race Relations and Managerial Decisions

Since the Supreme Court decision in 1954 on discrimination against minority groups in schools, there has been a swelling tide of opinion and attitude regarding the alleged rights of minority groups and their relationships to business in gaining these rights. More specifically, the ground-swell of opinion and attitude relates to the movement of the Negro in pushing for, in minority group terms, equal treatment in business.

The movements of the tide have not all been in the same direction, nor has the force creating the currents of attitude necessarily emanated

from the same source. On the one hand, the federal government, some
state governments, and various groups have been active in bringing
racial equality to fruition. On the other hand, some state governments
and various groups have sought to recede or break up the tide. At
least part of the latter action has been taken because of particular
viewpoints as to what is meant by the term racial equality.

Much of the controversy arising from the racial problem concerns
the right of the Negro to be able to seek gainful employment and to
receive services from business enterprises without discrimination be-
because of color or race. It is clearly recognized that these problems
did not arise only after the 1954 Supreme Court ruling; it is also recog-
nized that attempts were made to improve the economic and social status
of Negro long before the court decision.

For the last twenty years, the principle of equal employment has
been rather firmly established. Twenty states have enacted fair employ-
ment legislation as have approximately 40 municipalities. As of the
early part of 1963, approximately two-thirds of the U. S. working
population was covered by fair employment legislation. It has been
only after 1954, however, that a persistent and consistent effort has been
taken.

54 Harold C. Fleming, "Equal Job Opportunities—Slogan or Reality?;"
The environmental factors of race relations have had an impact on managerial decision making. The effects on decisions may not have come from a general prevailing public attitude, but rather from the attitudes of a specific public. Consideration of some examples indicate some of the ways in which managerial decisions have been affected.

1. 
   1. **Employment Opportunities**

   a. The President's Committee on Equal Employment Opportunity.

   On March 6, 1961, President Kennedy signed Executive Order 10925, establishing the equal employment opportunity committee. This is probably the most far reaching administrative action dealing with employment of minority groups ever issued. Specifically, this order concerns discrimination in government employment and obligations of contractors and subcontractors on government contracts. This section shall consider the order as it affects government contractors.

   With certain exceptions, all contractors with the federal government have to agree not to discriminate against any employee or applicant because of his race, creed, color or national origin. This non-discriminatory clause extends, but is not limited, to training, layoffs, recalls, dismissals, promotion, rates of pay, and recruitment or recruitment advertising. Contractors coming within the purview of the order have to make periodic reports to the committee stating that they have complied with the order. The contractors are also required to permit
access to books, records, and accounts by the governmental contracting agency and the committee.

Penalties for non-compliance with the order may be quite severe. If it is found that a contractor is not complying with the non-discriminatory clause of the executive order, the contract may be cancelled and the contractor may be ineligible for further government contracts. The committee or the appropriate contracting agency may publish the name of any contractor who has not complied with the order. The committee may also recommend that criminal proceedings be brought against the provisions of the Order.

Executive Order 10925 affirms the policy of Executive Order 10590 signed by President Eisenhower in 1955. President Kennedy's anti-discrimination clause in government contracts tightens up control with enforcement groups. Under the Eisenhower Order, investigation could be carried on only after a complaint was registered.55

It is felt that significant progress towards insuring equal opportunity had been made during the first nine months of the order.56

Perhaps the most far reaching indications of progress resulted from the "Plans for Progress." 

55"Equal Job Rights," Business Week, March 11, 1961, p. 120.

b. "Plans for Progress" Program. As Chairman of the Committee, Vice-President Johnson met with 50 of the largest defense contractors to solicit their support in giving leadership to the Executive Order in reaching its goals. The Plan for Progress was devised whereby:

Leading Corporations would make a detailed analysis of their current employment practices, filing with the committee statistical and narrative descriptions of them. They would then plan specific commitments to improve their employment practices throughout the coming year.57

Those who joined the plan pledged to aggressively and affirmatively pursue non-discriminatory practices against minority groups, and to seek out qualified minority group candidates.

By May, 1962, at least 52 companies covering three and one-half million employees in operations throughout the U. S. had completed "Plans for Progress." It seems as though some managements did not completely fulfill their pledges because by mid-January, 1962, 641 complaints of discrimination in government contracts had been filed with the committee. Of the total complaints received, 294 of them had been resolved. In 127 complaints, corrective action resolved the complaints; 60 complaints were dismissed as "no cause of complaint;" 91 were dismissed for lack of jurisdiction; and 16 were dismissed because complainant failed to provide the necessary information for investigation. The remaining 347 complaints were in various stages of process in May, 1962.58

57 Ibid., p. 654.
58 loc. cit.
While many of the plans were signed by companies in areas where discrimination was not so apparent, some of the firms extended the plans to include branch operations where discrimination had, for the most part, been the rule.

To get an indication of how some of these plans have been carried out, consider the Lockheed Aircraft Corporation at its Marietta, Georgia branch. When Lockheed signed the pledge in 1961, it pledged to distribute an up-to-date non-discriminatory policy to all members of management and to assign responsibility for accomplishing the policy. The company further pledged to aggressively seek out more qualified minority group candidates and to reanalyze openings for salaried jobs to insure all eligible minority groups employees have been considered for placement and/or up trading. Lockheed also pledged to encourage participation of minority groups in company training programs, and to insure that qualified minority groups were included in supervisory and pre-supervisory classes. Another pledge the company signed was to maintain all facilities on a nonsegregated basis. 59

Other firms with 24 branch plants in the Atlanta area also signed similar pledges. A 1963 Southern Regional Council study revealed for the most part the pledges and plans had been meaningless. Only Western Electric, Goodyear, and Lockheed ranked high.

The Council study reported that Lockheed had finished desegregating all plant facilities and had put Negroes into many new kinds of jobs. Negroes now work in 80 job classifications, including white-collar and technical positions, compared with 39 classifications when the plan was signed. Training programs are now open to Negroes and they participate in almost every type of program offered.

The company moved slowly against community customs. Lockheed believes that to meet the plan for progress pledge is to actively seek qualified candidates. Thus, the company makes regular visits to Negro colleges seeking qualified candidates. The company rejects a numerical measure of progress. Mr. E. G. Mattison, Director of Industrial Relations said, "people miss the point...they think in terms of how many? It's a matter of quality in what we do, helping the Negro become qualified for his long-range goal."60

As pointed out in the Southern Regional Council study, many managements seem to hesitate or balk at carrying out the plans. This view is substantiated by the Fortune survey of 12 cities in July, 1963. According to the survey, some businessmen regard the Plans for Progress as "big business integration program in the sky."61 Some businessmen applaud


the goals and ideals of the plan but have not done much about it. Even though the home office of many firms had signed the pledge, some branch managers stated that they had other things to do—like selling the product, they did not have time to listen to the President. Other branch managers stated that it (the plan) did not apply at the branch plants.62

While many managements have complied with the Executive Order 10925, and the "Plan for Progress," others have either tried to disregard their influence seemingly deliberately or as a result of their viewpoint or value judgement assigned to the influence. At the same time, businessmen were under another pressure to give special consideration to the Negro worker.

c. The Boycott Weapon. Negro groups, in seeking equal employment opportunity have boycotted certain business firms. Following are two cases in point.

In Philadelphia, early in 1961, a group of Negroes met with Sun Oil Company’s Assistant Director of Personnel Relations. The group wanted to know Sun Oil’s philosophy toward Negroes; how many Negroes were employed by the company; and if there were any problems. One month later the group issued Sun Oil a mandate to hire or upgrade 30 Negro workers within 30 days or the company would be boycotted. The group was informed that the company could hire no one except for bona fide openings.

62Loc. cit.
The company did hire seven Negroes, but the group was not satisfied and a boycott began, resulting in closing at least one Sunoco service station. About the tenth week of the boycott, Sun Oil Company notified the group that the company had complied with virtually all the demands, and after checking the employment records, the boycott was called off. 63

In another case, a bi-racial group in Boston, Massachusetts, demanded that Continental Baking Company hire 12 Negroes in 30 days or face a boycott. The group even designated specific jobs for the workers to be hired. The company replied that it had proven through hiring qualified applicants and through promotion policies that it did not discriminate against Negroes, and since it was unlikely that there would be 12 openings within 12 months, no promises could be made.

The boycott started on March 23, 1963. Approximately 32 stores in the Negro community were persuaded by the bi-racial group not to stock Continental's bread. By the time the boycott ended, the company had lost about two per cent of its weekly sales in that area.

By the middle of April, 1963, the company introduced a new line of bread and needed additional driver salesmen. The Urban League was asked by the company to help send qualified Negro applicants. Advertisements were placed in Negro newspapers. As a result, five Negroes were

hired. The boycott leaders felt the company showed good faith and called off the boycott.64

Not only did the boycott cause management to actively seek and hire Negroes in the Boston plant, it resulted in Continental's other 83 plant managers seeking out Negro leaders in order to allay any further possible boycotts. One Continental official said, "We're finding out that they're men [the Negro leaders] who understand how industry can play a part in the Negro movement, not by the aggravation of industry, but by the cooperative give-and-take of economic opportunities."65

d. Progressive Policies of Some Firms. A Chairman of a large electronics firm met with 300 of the firm's top engineers, noted that there were no Negro engineers, and expressed wonderment why there were none. Top operating management took the hint and at the next general meeting there were at least three Negro engineers.66 Motorola Corporation is aggressively seeking qualified Negroes in technical, professional, and other fields. The company regularly recruits at Negro colleges. The Chase Manhattan Bank in New York City also recruits at Negro colleges.67

64Ibid., p. 68
65Loc. cit.
66Ibid., p. 65.
67Loc. cit.
Pitney-Bowes, Inc., has been a leader in seeking qualified Negroes. According to a statement by the president of the company, Pitney-Bowes is not discriminating in reverse; that is, hiring a Negro in preference to a non-Negro of similar qualifications. Rather, it is the stated policy of the company to seek out more Negroes, "who, after a period of training, will make good employees."^68

According to the above statement, Pitney-Bowes, as well as other companies, recognized that the Negro has been a victim of discrimination and neglect. The company feels that past discrimination in employment and education has caused the Negro to be unable to compete equally in applying for jobs; therefore, the company proposes to actively seek out Negroes who are desirous to learn.

Bird feels that some employer attitudes were changed because they realized that work performance improves up and down the line when promotions are based on merit without exceptions, or regard to color. It is also felt that there have been positive results for profits, prestige, and public relations for companies leading the way in industrial race relations. Other firms are encouraged to follow.^69

Whether through government action, action by pressure groups, or management's willingness, the environmental factor of race relations has modified some management's decisions regarding the employment of

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^68 A Statement by the President of Pitney-Bowes, Inc., filed among the personal records of J. Mark Miller.

Negroes. But, employment is not the only area that has been affected by race relations.

2. **Service in Privately Owned Business Facilities**

There have been many pressures exerted against private business firms to integrate service facilities. Boycotts, picketing, and sit-ins have been frequent tactics used by minority or bi-racial groups. Since these tactics have been concentrated in the Southern states, discussion of the effects of the tactics used to gain integration will be limited to these states.

The year 1963 probably saw more desegregation in the Southern communities than any other single year. Many restaurants and lunch counters that formerly had been used only by white people were opened to Negroes. Motels, hotels, and theatres have also been opened to the Negro.\(^{70}\)

Managers of eating establishments in Mississippi have withstood the pressures to integrate and, as of December, 1962, no Negroes ate in "white" lunchrooms. In Arkansas, at the end of 1962, only a few restaurants were integrated, while in Georgia, several quality restaurants, one hotel, and about 10 movie theatres were integrated.\(^{71}\)

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In Virginia, most theaters are segregated but sit-in demonstrations have produced some integration at lunch counters in Richmond. South Carolina ranks as one of the most segregated Southern states. Sit-ins in this state have produced only a few results. In Columbia, South Carolina, however, several stores opened their lunch counters to Negroes in the latter part of 1962. In North Carolina, racial barriers are coming down in the industrial sections of the state. In some cities in North Carolina, Negroes often eat at integrated lunch counters.

Louisiana had no reported integrated services at private businesses at the end of 1962. A few service enterprises have opened their doors to integration in Texas, Tennessee, and Florida.  

On May 9, 1963, white leaders in Birmingham, Alabama, agreed to open some downtown facilities to Negroes, "such as lunch counters."  

It seems that decisions by businessmen in the Southern states have not been greatly affected by racial pressure group activities. The decisions to integrate facilities were made in the main by managers in the larger cities. For the most part, businessmen seemed to base their decisions on their own beliefs, or upon the general attitude prevailing in the community rather than upon the attitudes of Negro pressure groups.

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72 *Loc. cit.* Since this date some department stores in Baton Rouge, Louisiana, have integrated their lunch counters.

CHAPTER V

SOCIAL AND CULTURAL ENVIRONMENT

A. Make-up of In-Plant Environment

In an address before the superintendents of manufactories about 150 years ago, Robert Owen stated that much attention has been given to the care and upkeep of the inanimate machines with beneficial results. Mr. Owen wondered how much more could be expected from the "living machines" if they were given equal treatment. He said:

When you shall acquire a right knowledge of these, human beings of their curious mechanism, of their self-adjusting powers; when the proper mainspring shall be applied to their varied movements, you will become conscious of their real value, and you will be readily induced to turn your thoughts more frequently from your inanimate to your living machines; .... 1

The quest for knowledge about the human resource has been outstripped by the search for technological advances. Into the economy have been introduced new methods, machines, and processes. The changes have been historically oriented toward the characteristics of the machine. The greatly increased productivity brought about

partly through the engineering sciences has been made possible by vast and detailed information of machines, "down to the end of the handle - the point at which the operator takes hold of it."²

According to Haire, management's knowledge and interest ends where the operator begins. If the industrial machines were operated with as little knowledge as is generally known about the operator, it is perhaps likely that breakdowns would be frequent and drastic.

There has been expressed a need for a scientific study of the characteristics of people to parallel the understanding of mechanical characteristics so that both may be utilized with maximum efficiency. Technical changes have resulted in linking together the productive efforts of large numbers of people. Industrial organization of these people has resulted in many new problems in the techniques of social control and direction. As industrial organization grows larger and more complex, it seems apparent that many more problems will be generated beyond the current understanding of human behavior.

An organization is a set of relationships between people, and the institution's goals can be reached only through the efforts and activities of people. As organizations grow and the hierachy structure becomes more complex, "it becomes more and more true that each man

deals only with his subordinates and not with the actual product." ³

It seems to follow that more weight and attention must be given to

skills and abilities of individuals dealing with people. As tech-

nological changes increase, there is a concommitant need for an

increased understanding of the nature of people at work and the

processes of interaction of the people in the work situation. This

is the heart of human relations in business.

Human relations has been defined as, "The science which studies

the activities, attitudes, and interrelationships existing among people

at work." ⁴

And the major objective of industrial human relations is to

"establish the laws and principles which govern the behavior of

people at work." ⁵

Problems of understanding human behavior at work are not the

only problems which a business enterprise faces. Management needs to see the business organization as an organism imbedded in a field of forces which constitute the environment. The efficient utilization of the human resource is a problem that seems common to all business enterprises, even though the solutions may vary from case to case.

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³Ibid., p. 9.


⁵Ibid., p. 341.
If management can understand the nature of the people in the business organization and can know how to use this understanding in practice, one of the factors in the complex problems which face management can be utilized more efficiently. In order to get a better understanding of people at work and to see more clearly the factors upon which the interaction are based, attention must be given to some of the basic principles about the nature of people. Some of the areas of the environment of human behavior will be considered in terms of psychological and social needs of people at work and how managerial decision making has been affected.

1. The Nature of Needs

It is perhaps a truism to say that all behavior is directed to satisfying needs. According to psychologists, an individual struggles throughout life to satisfy his needs, a never-ending struggle because of a variety of needs to be satisfied. When some needs are satisfied, others emerge.

The direction of an individual's behavior is determined by multiple pressure of several needs acting at any one time. Since needs are determiners of behavior and since management is concerned with the behavior of people at work, management needs to look more closely at some of the needs and understand them in order to understand behavior. Many descriptions and classifications of needs from a few basic ones
to detailed lists for almost every act have been compiled. The list of
needs considered here will generally follow Langer's classification.6

a. Physical Needs. These needs are the most easily observed
ones. They include shelter, food, rest, sleep, and other needs for the
physiological upkeep of the human body. These needs are considered
the most basic motivators and if they are unmet, all other needs are
pushed into the background. "It is quite true that man lives by bread
alone—when there is no bread."7 When a man is filled and hunger
wants are satisfied, other and higher needs emerge.

b. Social Needs. These needs are satisfied through interaction
with other people. One such need is sociability, or drive for affilia-
tion and association with other people. Association with other people
is a common goal for which men strive.8 This need is sometimes called
the "herd instinct," and a person may feel a real deprivation when
association is not possible.

Studies in the automotive industry have shown that the grievances
filed are related to the number of people in a work group. The person who
worked alone with no opportunity for social need-satisfaction to be

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6Walter C. Langer, *Psychology and Human Living* (New York: D.

7A. H. Maslow, Motivation and Personality (New York: Harper

8Langer, loc. cit., p. 64.
fulfilled, filed the largest number of grievances. Men who worked in
groups of two or three filed the next most grievances while those in
larger groups filed fewer grievances. Newman and Summer report
that absenteeism tends to be low when individuals have friendly
relationships on the job.  

The need for affection is also a recognized social need. This
need is expressed as a need to be both recipient and giver. Haire
points out that the motive for "a feeling of loyalty towards institutions
and companies, and that part of the return that an employee finds in
feeling wanted and cherished by his company partakes of the need for
affection."

c. Egoistic Needs. For these needs, the goal is not primarily
in relation to other people. It is rather a particular view of one's self.
According to Maslow, these needs relate, on the one hand, to one's
self-esteem, self-confidence, and independence and achievement,
while on the other hand they relate to one's reputation, status, recogni-
tion, and need to be appreciated. These needs are rarely satisfied as
individuals seek indefinitely for more satisfaction. These needs arise
only after other needs are reasonable satisfied.

9 Haire, op. cit., p. 30.

10 William H. Newman and Charles E. Summer, Jr., The Process of
p. 157.

11 Haire, op. cit., p. 31.
To this group may be added the need for self-actualization. Maslow states, "Even if all these needs are satisfied, we may still often (if not always) expect that a new discontent and restlessness will soon develop, unless the individual is doing what he is fitted for .... What a man can be, he must be." ¹²

These needs are generally considered to be arranged in a hierarchy; as some begin to be fairly reasonably satisfied, others emerge. However, this hierarchy is not a rigid one as there is no fixed progression from one need to another. There may be an overlapping of some of the needs, and some may be more intense than others. There are also relative degrees of need satisfaction. Also, these needs may be either conscious or unconscious. Maslow states that generally, for the average person, the needs are more unconscious than conscious. ¹³

Traditionally, management's contribution to need-satisfactions of workers has been through pay. The money paid to workers are means by which the physical and physiological need-satisfactions of food, clothing, and shelter are met. Some egoistic need-satisfaction can be met with money. Pay, to some extent, serves as a status symbol in the community in which workers live. Pay that is sufficient to allow the individuals to live in certain neighborhoods, to drive certain cars, and

¹²Maslow, op. cit., p. 91.
¹³Ibid., p. 101.
to belong to the "right" clubs, also serves to fulfill certain egoistic needs off the job. As important as these may be to individuals, there are some social and egoistic needs that can be met only on the job and through interrelationships with other people.

2. Consideration of Social Relationships

   a. Social and Informal Relationships. An industrial organization may be said to be divided into a technical organization and a human organization—both are interrelated and interdependent. The human organization remolds and rearranges the technical organization for either the economic purpose of the firm or the satisfaction for the members of the firm. In return, technological change requires human adaptation to the changes.

   The human organization as a social system is composed of all the individuals within the firm interacting with one another, and through interaction, patterns of behavior are formed among the individuals. According to one authority, "These patterns of relations, together with the objects which symbolize them, constitute the social organization of the individual enterprise."\(^{14}\)

   The social system includes those patterns of behavior which are related to the formal organization, but many patterns of behavior are

completely unrelated to the formal organization or inadequately represented by it. These patterns of interaction among the individuals and groups constitute the informal organization.

Too often it is assumed that an organization chart depicts the actual organization, when in fact, these two never exactly correspond. The organization chart is the blueprint which shows the functional relationships between units; it does not show social distance or movement. The sentiments and values which are found in the social organization cannot be expressed by a formal structure. It is these sentiments and values which differentiate, order, and integrate individuals and groups informally. Individuals, through their interpersonal relationships and associations form into groups through which some of the needs of the individuals and groups are sought to be fulfilled.

It is not to be assumed that informal organizations are bad, per se. These organizations exist in every plant and they can and do serve useful purposes in facilitating the formal organization. At times, however, the informal organization develops in opposition to the formal organization. "The important consideration is, therefore, the relation that exists between formal and informal organizations."15

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15Ibid., p. 559.
The parts of a social system are interrelated and interdependent. A change in one part causes a change in the other part. Following Roethlisberger and Dickson, these systems can be viewed as being a state of equilibrium. If some modification that is different than would otherwise occur is imposed upon the system, reactions would tend to reach the state of equilibrium of condition that would have occurred if there had been no disturbance. Some parts of the organization can change and adjust more rapidly than others. Roethlisberger and Dickson state that a precondition of unbalance exists which may be manifested in various forms when there is a disparity in rates of change.¹⁶ For instance, if there is a disparity in rates of change between technical change and social adaptation to the change, distrust of management and resistance to change may develop. In the Hawthorne studies it was found that when changes were introduced too rapidly with or without sufficient consideration for social implications, the workers felt that they were asked to adjust too rapidly to methods which deprived their work of its customary social significance. In situations such as these it was apparent that the social routines, codes, and customs could not be adjusted to the technological innovations as rapidly as the innovations could be made. Any alteration to the social organization, if done too rapidly, may lead to feelings of exasperation and frustration to technological change in any form.

¹⁶Ibid., p. 566 ff.
The researchers at Western Electric's Hawthorne plant found that cooperation was determined much less by the formal organization than by the informal organization. Cooperation requires tradition, social codes, and conventions, and without such requisites no effective work relations are possible. For a better understanding of how the informal organization functions, consideration will be given to examples of informal group behavior.

b. Group Behavior. Many times the work arrangements is such that few opportunities arise for the satisfaction of social needs in relation to organizational goals, and workers may organize into groups (structures that are the creation of the workers and not of management) to satisfy their own goals. These structures and goals may become, at the same time, very important to the workers and detrimental to management. Management's conventional motivational techniques cannot control them, and the more management tries to control and interfere with these groups, "the more they flourish in ways that become more annoying and more unmanageable."17

In one study of a department, a group of "regulars" controlled things in terms of social values.18 These regulars were the pace


18Ibid., pp. 408-409.
setters of the groups and policed the behavior of the individuals so that behavior would conform to that acceptable to the group. The regulars were people "in the know;" they knew how to play the game of getting along and getting ahead while "keeping their noses clean" at the same time. The regulars served a very useful function for their groups in keeping the organization from making a too-rapid a change. They also protected their members from too much interference from management. A price had to be paid for the protection offered the individuals, the price being conformity to group values.

In the above study it was brought out that:

Something of . . . immediate concern to management is that in these transactions and exchanges of non-material goods, the workers are the chief dispensers. The workers and not management are dispensing the powerful rewards and punishments that determine the productivity and satisfaction of its members. Membership or isolation is the reward or punishment; conformity or nonconformity is the cost and the difference between them is the profit or satisfaction. And in this exchange of powerful motivational goods, management's role tends to be overshadowed.¹⁹

Although the above illustration was drawn from one study, other studies have shown the same general pattern. It can be expected that managements, in general, are affected by these groups in the same general way. Attempts have been made by many managements to make available the means of satisfying workers' needs through work arrangement, participation, and monetary incentives.

¹⁹ Or. cit.
3. Need-Satisfaction Arrangements

To understand the implications for managerial decisions in worker need-satisfaction, it should be remembered that the individual's needs are arranged in a general hierarchy. The basic subsistence needs play an important role in the worker-management relationship. Through fairly steady employment and good pay, these needs of the workers can be satisfied. But once these needs are satisfied, they cease to be motivators; higher needs become important, and these latter needs cannot be satisfied in quite the same way that the more basic needs are satisfied.

Management may have been successful in providing means of need-satisfaction for the subsistence needs. However, the traditional motivators of pay, fringe benefits, and good working conditions in and by themselves "will not motivate the workers to give more than minimum effort." Management may be left with obsolete tools which are insufficient to motivate workers. The old needs for which the motivational tools of pay and fringe benefits were used no longer exist, or rather, they are unimportant need satisfiers.

Management cannot provide the workers with friends, self-esteem and respect by other workers. Conditions can be created, however, to serve as vehicles through which the workers may seek satisfaction of

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20 Ibid., p. 402.
some of the higher needs. Management finds that it is much more difficult to provide means of satisfaction for some of the higher needs. Technical organization which is required for certain processes may preclude face-to-face contact among workers. Some attempts have been made to direct the workers efforts to the company's goal while providing the workers with some measure of need-satisfaction.

a. Work Arrangement--Small Group. In a business organization, many of the jobs and activities are common ones taken for granted by management. At times management misses the significance that these jobs have for the workers. To a great extent these activities determine how a worker feels about his work environment. It is generally accepted that if the worker is able to integrate his own social needs into the job-activity he will feel more satisfied and will tend to support the organization. A change in the work structure may leave the worker disgruntled, or it may help him to more clearly see his place in the work group.

The experience in the Great Britian coal mines illustrates how a change may adversely affect the workers. For many years the coal was mined by small teams of miners. Generally there were three people per group--a cutter with his two assistants. These small groups made separate contracts to work certain areas. The complete mining task was accomplished by each group. The members of the group were dependent upon one another for safety and production.

Technological advances made it more economical to use the "longwall"
method whereby a longer strip was mined at one time. Work teams were divided into shifts. There were 40 to 50 men working in shifts. One shift would blast, another would dislodge the coal, and a third shift would fill the cars and transport the coal to the surface.

Psychologically, two consequences resulted from the new arrangement. The larger group was spread out over a wider area, making the structure less accessible to the men who comprised the group. Also, the primary face-to-face group was destroyed whose members depended on one another for production and safety.

After the change in the work arrangement, the accident rate increased as did ill feelings between shifts (one shift would blame another for safety hazards). Technological innovations offered some improvement at the expense of the psychological environment of the job. Difficulties arose or some of the need-satisfactions went lacking. "One wonders whether it would not have been possible with more mature considerations, to introduce a plan which retained the technical advantages of the new system without working so inefficiently with respect to the motive power of the individuals."²¹

If management would seek to maximize opportunities for social interaction at work, the overall return to the work may increase by

²¹Haire, op. cit., p. 40.
increasing the worker's morale and perspective of his job, and return some benefits to management at the same time.

In a utility company, there were approximately 100 girls sorting bills as they came in from the service line; all girls were working in one large room. This type of work is considered tedious and exacting. The company experienced problems of absenteeism, turnover, and mistakes. In conjunction with alterations in another part of the building, the layout of the sorting room was changed and the room was subdivided into ten rooms. The nature of the work was the same, but now there were only ten girls to a group. After the change in work arrangement was made, all of the aforementioned problems were reduced.

The groups were now small enough so that a person could see herself as an individual and as a member of a group. In the larger group (100 workers) it was more difficult for a girl to identify with a group. Under the new arrangement, the need for association and affiliation was better satisfied.

b. Job Enlargement. Division of work and specialization of effort have broken some jobs down to the extent that workers may perform only a small element of the task. It is felt by some that narrow specialization has created dissatisfaction among workers. Guests said that the production engineers have factored out all that might be of real personal value to the worker. Less skill, less sense of achievement,
and less opportunity for advancement have attributed to overspecialization.22

There is evidence that specialization does not necessarily lead to job dissatisfaction. MacKinney, et al. have presented research findings that support this view.23 Turner and Niclette report that in a British electronics firm, dissatisfaction of the job due to monotony and lack of interest was not evident. The workers in this firm felt like the product and job were interesting. Only 20 per cent reported that the job was boring.24

Gardner and Moore state that overspecialization may result in the workers feeling that their work is not important to the company; that management hired them for their hands and feet, to operate equipment and not for their brains. In such situations the workers may lose "the logic of the line." According to Gardner, "A man will feel part of an organization to the extent that he can see that his particular work activity is an integral part of the activity of his department, and to


the extent, also that he feels that his work is important to the success or failure of the organization."25

Katz feels that mechanization has undermined job satisfaction because the skill level of the jobs is lowered; a reduction in variety leaves the worker with a minimum of decisions to make. In addition, the workers are deprived in a work situation that lessens their personal involvement. Katz also feels that the values of craftsmanship, creativity, and initiation still exists and that the American Workers prefer jobs with more skills and wider responsibilities.26

Job enlargement seeks to increase the scope of work assigned—to include a wider segment of the process or a variety of activities.27

The I.B.M. Company was one of the first companies to utilize the job enlargement idea. In 1943, Mr. Thomas J. Watson, then president of I.B.M., saw a worker standing idle beside her machine waiting for an adjuster to come by and adjust the machine. Mr. Watson allowed the worker to make the adjustment. From this simple beginning I.B.M. has enlarged many of the machine jobs. Workers learn to operate several machines, read blueprints, and inspect finished work. It is felt


that the worker welcomes variety by switching from one machine to another. I.B.M. estimates job rotation and enlargement increased the scope and variety of almost all 7,500 machining and assembly jobs in its four U.S. factories. At I.B.M., "Workers find their enlarged jobs less monotonous, less fatiguing; they are absent less often, do less complaining, make fewer mistakes."²⁸

In Detroit Edison's billing department, the billing machine operator's job was enlarged to check the printed bills; a task that had formerly been done by separate checkers. After the change, morale went up, and overtime was reduced by 50 per cent. Douglas Elliott of Detroit Edison surveyed 122 other electric utility companies. "On the average, billing costs per customer were higher in the billing departments with the most specialization, lowest in those with the least."²⁹ Cost differences between the high and low specialization groups were as high as 40 per cent.

Although some jobs do not lend themselves to restructuring as easily as others, some firms have found that greater productivity could result if the jobs were rearranged to increase worker satisfaction. In restructuring jobs to increase to the maximum the ability of workers to achieve goals which are meaningful to the job, it has been suggested

²⁸"Broadening the Job," Time, April 12, 1954, p. 100.
²⁹Loc. cit.
that the worker should have some degree of control over the way the job is done. It has been found that in so doing, the worker attains a sense of achievement and personal growth.\(^{30}\)

In complex organizations technology, work flow, and organizational relationships tend to set the pattern of human relations which is observed. If an attempt is made to change the pattern of human relations without changing the forces that have created it, not much progress can be made. Even if some of the environmental factors cannot be changed, if these forces are understood, the manager may be better able to adjust the problems they create.\(^{31}\)

Whether management changes the work process to include job enlargement or rearranges the work to allow for more face-to-face relationships, "The first requirements of effective work organization is, therefore, that it make the group and its social cohesion serve performance in the job."\(^{32}\) Drucker states that to carry this out, there is a need for a job for the group to do—as a group team effort as a definite stage in the process. The group needs to be a true, cohesive group, to be able to work as a cohesive social unit. Management can


not always organize the job around the workers. Organizing men for
work means putting them where they will do the best, therefore, place-
ment should rank high in assigning workers to jobs in which they can
serve the goals of management, while at the same time satisfy their own
needs.

c. Consider Group Practice. If possible, management could
consider harmonizing the social groups and the formal organization.
It may be that after investigating some group practices, management
will want to adopt the practices of the group. In a plumbing equipment
company, the sales department was required to refer all complaints about
product design to the engineering manager. The engineering manager
then talked with the customers to find out the specific difficulty. The
sales manager was not satisfied because of trouble involved in getting
minor changes he felt was necessary to overcome customer complaint.

The sales manager began obtaining all the information on what
the customers wanted. An engineer was then assigned to investigate
the problem. Salesmen and the sales manager talked with the engineer
who began to rely heavily on the salesmen for customer data. Under the
practice that developed, salesmen could report directly to the engineer
on troublesome areas; then the salesmen, sales manager, and engineer
would meet to discuss the problem.

As the sales department began to take a more active part in cus-
tomer complaints, the Vice-President of Research and Engineering
protested to the president that the sales department was taking up too much of engineering's time and interrupted scheduling. The president investigated, decided that product development was being improved by the role of the salesmen, and had the job description of salesmen changed and included new duties for the sales manager to conform to the already established practice. Afterwards, the Vice-President of Research and Engineering felt the new organization was best.33

It may not always be the best solution to adopt the group practice. Management can be alert for the possibility that behavior of groups may be for the benefit of the company and include these practices in the formal organization.

The make-up of the in-plant environment is of concern to management. More and more, managers are becoming concerned with the needs of individuals and the ways in which they can be satisfied on the job. Ross and Zander found that the degree to which a worker can satisfy certain needs on the job has a direct relationship to his continuing to work for the company.34

Only a few possible ways by which management can make available to workers for need-satisfaction have been mentioned. Scott feels

33 Newman and Summer, loc. cit., pp. 146-147.

that a person will not be able to make a maximum exertion unless he is
moved by the simultaneous application of several motives.\textsuperscript{35} As
managers learn more about human behavior with its accompanying
needs, the in-plant environment will perhaps be of more importance
to managers in their decisions. This may require a different way of
thinking on the part of management.

4. \textbf{Theoretical Approach to Motivation}

It has been mentioned that within the business enterprise,
individuals and groups seek to satisfy certain needs. Some of these
needs that may be satisfied on the job are social needs, \textit{e.g.},
affiliation need, and self-actualization needs, \textit{e.g.}, opportunity for
growth and becoming what one is capable of becoming. It has also
been mentioned that in seeking to satisfy these needs, workers may
tend to disregard the enterprise goal. The environment created by the
latter actions are considered inimical to the interest of the firm and
management wishes to motivate the workers toward the company goals.

Interest has been created by McGregor's Theory Y as one approach
to the problem.\textsuperscript{36} The basis for McGregor's Theory Y is the integration
of individual and organizational goals. To accept the theory, managers

\textsuperscript{35}Walter Dill Scott, \textit{Increasing Human Efficiency in Business}

\textsuperscript{36}Douglas McGregor, \textit{The Human Side of Enterprise} (McGraw-
have to accept a set of assumptions about motivation and human behavior. These assumptions are:

1. The expenditure of physical and mental effort in work is as natural as play or rest.
2. External control and the threat of punishment are not the only means for bringing about effort toward organizational objectives. Man will exercise self-direction and self-control in the services of the objectives to which he is committed.
3. Commitment to objectives is a function of the rewards associated with their achievement....
4. The average human being learns, under proper conditions, not only to accept but to seek responsibility....
5. The capacity to exercise a relatively high degree of imagination, ingenuity, and creativity in the solution of organizational problems is widely, not narrowly, distributed in the population.
6. Under the conditions of modern industrial life, the intellectual potentialities of the average human being are only partially utilized. 37

Under Theory Y, management assumes new attitudes about individuals in the work force, and a new environment is created as the principle of integration is accepted and applied. This principle holds that conditions are such that the individuals in the organization can reach their goals best by directing their energies toward the goal of the company. Both the organization's needs and the needs of the individuals are recognized under the principle of integration.

**Perfect** integration of the individual's needs and goals and organizational requirements is not a realistic objective under the

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integration principle. The principle states that the individual can reach his goals **best** if his energies are directed toward the goal of the company. The term "best" means that "this alternative will be more attractive than the many others available to him..." It is expected that the worker will be encouraged to fulfill his growth needs; developing and voluntarily using his skills to contribute to the success of the company. McGregor states that the assumptions under Theory Y have not been validated as final, but that he does believe them to represent, and are more consistent with, what is known in the social sciences about human behavior. It is expected that the assumptions will be tried, modified, and refined as research accumulates. Theory Y is an invitation in innovation; an innovation that can have a far reaching impact on the internal environment of a business enterprise as individuals seek to satisfy needs on the job.

B. **External Environment and Marketing Decisions**

Not only is the social and cultural environment within the plant important for managerial decisions; external sociological, psychological, and cultural factors of the environment are also important. This is especially true for marketing decisions. Chapter IV dealt in part with the attitude of the consumers as affecting managerial decisions. The

emphasis there was upon general attitudes of the consuming public. This section shall be concerned with some aspects of psychology, sociology, and anthropology as they relate to the behavior of consumers and some implications for marketing management.

1. **Understanding the Psychology of Consumer Behavior**

In trying to determine why consumers buy as they do, many managements have turned to psychologists for help. Consumer motivation has been studied to a considerable extent by psychologists and other behavioral scientists. The psychologists have not been in complete agreement in approach. At least three major approaches to consumer motivation are being followed by psychologists.39

The laboratory psychologists take a physiological approach in that they feel like the biological drives are the main influences in consumer motivation and behavior. A second approach stresses certain psychological factors in motivation while tending to place little emphasis on the biological drives. The third approach follows the Gestalt psychologists as represented by Kurt Lewin and his followers. The Gestalt approach is thought to perhaps have the greatest significance for marketers in studying consumer motives.40 The Gestalt approach is

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40 Ibid., p.
essentially a socio-psychological approach in that environmental factors are some of the determiners of motivation. The immediate environment of which an individual is part, plus his inherent drives, constitute the main determinants of a person's motivations and behavior.

These three approaches indicate a variety of theories of understanding human behavior. One main problem area to be solved by the researchers is evaluating and reconciling the various concepts and theoretical explanations so that marketing management may more fully understand the motivations of consumers. Lazer and Kelley, above, state that "The attempt to integrate numerous, and often conflicting, explanations of behavioral scientists into a practicable solution can become a highly perplexing experience."

McCarthy states that there is no objective way to measure the results of a motivational survey, and since there are 39 different psychological schools of thought on human behavior, more complications are added. 41

Consumer attitudes and behavior are important in solving advertising and marketing problems. Motivation research has grown at a great pace in an effort to offer the marketer some solutions, but it is contended that psychological and sociological factors are often ignored. 42


One reason for this is that the difference between motivation research and psychological research is not recognized. According to Woods, there are two distinct processes which determine what particular product will be bought or consumed. One process is motivation. To use a simplified example, one eats because he is hungry, he is bored, or he needs an outlet for some psychological force. What a person eats is considered to be outside this realm of motivation.

The second process is the process of discrimination—a person selects certain kinds or brands of food to satisfy the hunger. Consider the food as a cereal. A person may eat cereal at breakfast because he has always eaten it at breakfast (habit); the cereal box in view as breakfast was considered (impulse); or because everyone else was having cereal (social). There are several possibilities as to why the particular brand or cereal was selected at the store. The particular brand is always automatically selected (habit); perhaps that brand is considered best (cognitive); or the brands of the "big" manufacturers was preferred (motivation); or perhaps a child requested that particular product.

While all consumer behavior is motivated, actual choices made may depend upon many other psychological variables. Although motivation underlies all consumer behavior, it often plays a secondary role in actual consumer choice. Woods explains consumer choice in the following way:
Two sets of factors determine the choices which are made: personality of the purchaser, and character of the product. There are thus two sets of variables:

1. Consumer variables, the differences among consumers in their habits, cognitive structure, and motives which cause them to behave differently in purchase situations.

2. Differences among products in 'demand character' which cause consumers to become more ego-involved with some products than with others.43

Woods states that product variables have not been studied as much as consumer variables and less is known about them; however, it is possible to describe the product variables in fairly clear terms. The demand for ego-involvement of symbols which a product conveys can be classified into prestige products, maturity products, status products, and anxiety products. The prestige products connote leadership;—such as automobiles, homes, furniture, and art objects. Maturity products represent those products withheld from younger people because of social customs; included here are cosmetics, liquor, and tobacco. Status products connote membership—consumers select these because they believe they impute success and substance. Anxiety products are those intended to protect individuals from some alleged personal or social threat. Items in this category include, but are not limited to, soaps, razors, and dentrifices. These products involve ego-defense, whereas the preceding classifications involve ego-enhancement.

43Ibid., p.
In addition to the ego-involvement demand for a product, there is a demand for hedonic products or product features. These products are highly dependent upon their sensory character for their appeal. In addition to the sensory character, the appeal of these products is both immediate and situational. Included in this category are certain snack items, some types of clothing, and pre-sweetened cereals. Visual features of products fall into this category, including color and design.

Another class of products are functional products. Included in this category are staple foods, fruits and vegetables, and building products. As yet, little social or cultural meaning has been imputed to these products.

There are important implications for competitive marketing in the differences between the foregoing classes of products. If management can develop a high ego-involvement, a firm can win a high degree of interest on the basis of product image. As a result, high susceptibility to other brands and a less "habit bound" audience develops. In such situations, "Marketing success hinges heavily on motivational selling." If ego-involvement is low, loyalty to one's brand must be achieved differently. Product identity and familiarity become much more important than product image. After loyalty is established, there is less threat from other brands than there is in ego-involvement products. One brand loyalty has been developed, it will be costly for another
company to achieve loyalty for its brand since the other brand must use
cognitive appeals to get through to a habit-bound audience. Conse-
quently, for a product that has a functional or hedonic demand, lead
time becomes very important.

Product variables and consumer variables represent two sets of
variables. Yet, they are interrelated. Impulsivity, as a personality
characteristic, gives rise to greater susceptibility to products with
hedonic appeals. Similarly, products with status connotations will
be associated with social needs. However, it is necessary to make a
true differentiation in order to distinguish market or consumer segmenta-
tion and product description. A study of consumer variables helps in
defining markets in terms of consumer needs, and a study of product
variables aids in defining product concept and product attributes.
Both are necessary to develop a product philosophy.

In the example of hedonic products, it was mentioned that style
and color were characteristic of visual features. As self-service in the
selection of goods increases, the more important package design be-
comes since to a great degree, the package is the silent salesman.
Following are some examples of the ways in which management has
sought to give appeal to packaging through design.

A proprietary drug manufacturer wanted to improve his entire line
of packaging. He retained a research organization to conduct a con-
sumer survey to determine exactly what could be changed to increase
sales without endangering his current franchise. He wanted to discover the consumer threshold of recognition for the company's products. He wanted to know if the threshold of recognition depended on the shape of the package, its color, the type of cap used, or the label. The researchers asked consumers to state their preferences among labels and color. The drug company also studied its competitors' packages.

It was determined that color was strongly and favorable associated with the product. However, there was a tendency to associate the company's products with items outside the drug field. The present labels were hard to read by many consumers. The overall recognition was strong, but the company felt it could be improved.

With the information from the research, the company modified its package design. The original color was maintained, but the proportions on the package were made more square (a square shape that seemed to be associated with drug products). The company's logotype was moved from the bottom to the middle of the container. A new cap was designed which was better looking as well as more functional than the older cap. New cartons were also designed for display purposes. Sales increased, and the company felt sure that the changes in design had much to do with the increase. 44

In another case a manufacturer of perishable foods became aware that one of his products was not selling. The old package design seemed excellent from an aesthetic point of view. It also seemed appropriate for food products. It was bright and colorful with the name brand legible and eye catching. The design had an overall uniqueness, but the product just would not move.

The firm assigned motivation researchers to find out the problem and recommend solutions. The product could be eaten in the form in which it was sold, and it could also be used in cooking. The researchers found out that the consumers were reluctant to serve the product on the table or to use it in cooking. It was determined that the major objection was to the design of the package. The design was geometric and abstract in form and suggested an artificial product.

The consumers wanted a product that seemed fresh, natural, and wholesome. The old design conveyed just the opposite. The company had new containers made with new designs. Colors and symbols were used connoting the outdoors; the earth, sun, and foliage. On the new label the product was pictured in a garden-like setting. Flowers, leaves, and cool colors were used in the design. Thus, with a new package and a new design the old prejudices against the product were overcome.45

In one study on the wrapper design of soap, two identical type bars of soap were wrapped in wrappers of two different designs. The soap in one wrapper outsold the other two to one. The implication for marketers is this: the housewife goes to a grocery store to buy fruit, vegetables, soap, etc., she does not consciously shop for the design of a wrapper. Certain designs and colors are more appealing than others, and for maximum results, the marketer should build a package design that will cause the consumer to select that brand over another. 46

The marketer must determine motives for buying before he can formulate his marketing strategy. Buskirk considers the need for determining buying motives for setting policies regarding the price, the product, promotion and advertising, and the channels of distribution. 47

To establish product policies, the firm needs to align the product itself to the buying motives of consumers. Food manufacturers have had to completely repackage many of their products because it was discovered that the package itself was the real motive that determined which brand was chosen by the consumer. Chrysler Corporation had to redesign its entire line to coincide with car buyers' tastes as revealed by their reasons for buying.


Many buyers of watches stopped purchasing on the basis of reliability alone and demanded fashion items, forcing watch manufacturers into the fashion race. The Goetz Brewing Company changed the name of its product from "Country Club" to Goetz" when it discovered that the name Country Club was associated with golf and high society instead of beer.

Pricing policies are also affected by consumer buying motives. For example, some consumers purchase certain perfumes because of their desire to be exclusive and distinctive. In order to develop that image of these perfumes, the marketing manager may place a relatively high price on them since a low price may destroy the distinctiveness of the perfume. Managers will probably not use odd pricing on products for which he hopes to establish in the customers' minds as high quality. If the product is to appear as a bargain item, an odd pricing policy may be adopted.

According to Buskirk, in the area of promotion and advertising, the use of buying motives is popular. To be effective, advertising campaigns should be centered around appeals which are important to the buyer. For instance, if the sociability motive for smoking cigarettes calls for that type of theme, another type of appeal will be ineffective. If the motive for purchasing a particular car is the success symbol, then an economy appeal will be futile. Promotional campaigns should be built and focused on the knowledge of why people buy certain brands of products.
Purchasing motives are also important in selecting channels of distribution. Products purchased on the basis of low price will generally be marketed through different channels than will products which are bought on the basis of prestige or snob appeal. For example, products with price as the basis of purchase will usually go through supermarkets, discount houses, and other low-price outlets. Dresses of high style, quality, and price will not normally be sold through stores such as Lerners or the Three Sisters. To do so would tend to destroy the image. Instead, great care is usually exercised to insure that the high style dresses will be placed in a few fashionable women's specialty shops. When service becomes important to a product, management generally will select outlets that will insure proper service.

The foregoing examples have indicated the importance of understanding the psychology of the individual consumer, and its implications for marketing decisions. To more fully understand consumer behavior, attention must be given to the individual in his relation to other people. As the groups within a business organization affect individual behavior, the individual as a consumer many times conforms to social groups or classes, and general patterns of consumer activity have been developed.

2. **Social Groups as Determinants of Buying Behavior**

A change in the viewpoint of the nature of man and marketing behavior came about in part from the impact of sociological throught
and research. Among the contributions of sociologists are population studies, which enable marketers to determine how many and what kinds of people there are and where they are; data on consumer motivation—earlier thought largely ignored the group, rather, the focus was on the individual; and human ecology which analyzes the processes involved in spatial and temporal adaptation and distribution of human beings and their institutions.

This section will be concerned with consumer motivation as affected by group behavior. It is considered by some that motives of people "are products of group life." Sociological research on class, voluntary associations, leisure activities, and attitude measurement have revealed implications of motivational patterns for marketing.

Although the class system of the United States is far less pronounced than in some other countries, sociological research has shown that a class structure does exist in this country. In sociological and marketing usage, no connotation of superiority or inferiority is meant as no value judgements are assigned. It is not necessary for the marketer to judge the values or motivations, but merely to know that they exist and the implications they hold for marketing decisions. In general, Warner's class structure ranging from lower-lower to upper class is accepted.

To get an indication of the importance for marketing managers to know class characteristics, consider the following study concerning buying patterns based on occupations. As is well known, in recent years, blue collar workers have had a rapid rise in income. Based on income, this would move them into the same class as white-collar workers, and it might be expected that the buying patterns of the groups would be about the same. This was not the case, however, when the communities were classified into the following groups: (1) High-town or upper class, (2) low-town or lower class, (3) wage-town or middle-class wage earners, and (4) salary-town or middle-class white collar workers.49 From this study it was shown that although the wage-town and salary-town workers may receive approximately the same income, they lived in different neighborhoods, had different interests, and associated with different groups, responded to different stimuli, and in general, read different magazines.

In the latter part of 1950, the Chicago Tribune undertook several studies in Chicago using Warner’s social class system.50 From the studies it is apparent that a person from the lower class receiving the same income as a person from the middle class will not follow the same

49 McCarty, op. cit., p. 95.

pattern of behavior as the person in the middle class. "The various classes patronize different stores, buy different brands of products (even though their price is approximately the same), have different spending—savings attitudes, and tend to put their savings into different places."^51

Recognition of class differences is essential to a manufacturer attempting to cater to one particular group. The Chicago Tribune studies found that one brewing company centered its advertising around "a fox hunter in full costume, with red coat, boots, and cap." While the advertisements may have been artistically done, they failed to reach the target market the company wanted to reach—the lower class group. This class felt that the advertisements were repugnant and snobbish. By not considering appeals that would be affective for the particular group, the company wasted effort and expenses.

A similar study in women's fashion showed that women in the "old rich" or upper class did not adopt the new styles in dresses as they came out. They tended to hold to the same style for several years. The styles they did wear tended to follow the British woolens and tweeds. In the advertisements aimed at this group, appeals were based on "aristocratic" and "distinguished" themes.

^51 McCarthy, loc. cit., p. 97.
In the class just below this group were women of newer wealth, although more wealthy than the upper class. Women in these groups were Paris style conscious and preferred fashion clothes. Clothes were symbols of wealth and a high standard of living rather than the family background. Appeals in advertising were based upon sophistication and chicness. In the next lower classes, fashion had a different meaning. McCarthy points out that, "High style is regarded with some suspicion. Paris styles are characterized as too extreme. Respectability is the standard, not breeding or effect. 'Smart' is the right word, and 'smart' means what everyone in the same social class is wearing."52

For marketing implications, there are at least two points of significance regarding the social classes. One is that the attitudes and motives are similar for each class; the other is that these attitudes and motives vary from class to class.53 Various studies on social class behavior support the view that a consumer from one social class will select stores which cater to this class group.

In a Chicago study of metropolitan automobile dealers, Martineau found different styles of conducting business according to the neighborhood.54 In the upper middle class dealer, emphasis was placed on

52Ibid., p. 98.


personal relationships in service and sales. This was not so among
the upper lower class dealers who depended on volume. The middle
class dealer was not as aggressive as the lower class dealer. It was
imperative for the upper middle class dealer to show recognition of the
higher status of customers.

Sellers catering to certain classes learn to adjust to the psycho-
logical demands from the customer group as different classes expect
different things from stores they patronize.

In a similar study by Martineau as reported in the above article,
it was found that among shoe retailers, it could be determined to what
general class of people certain stores attracted. For example, many
shoes on display in the store window said that the store catered to a
lower price class customer. A high style, high price shoe store may
have only one shoe in the window display, set with an abstract back-
ground.

Advertising may sometimes speak to a particular class and if it
does not appeal to the same frame of reference as that group has, it
is most likely to miss its mark. A store's psychological and socio-
logical identity through non-verbal visual elements of advertising plus
the price can speak more clearly than formally stated communication.
Advertising with blacker layout and typography usually conveys a notice
of mass distribution.

As a "lower-lower class" of people have migrated to the major
cities, a new type of discount house has arisen. Advertising of these stores "is an outward projection of the stores and their merchandising to position themselves on a social class ladder." 55

In a department store study, it was found that lower-status women were aware of sanctions if they went into a high-status store. Salespeople would find subtle ways by which to punish the shopper. Socially mobile women think a great deal about external symbols of status and may test status by shopping in department stores which she thinks are commensurate with her charging position. Certain expectations as to dress and behavior are imminent, and if violated, it will be made clear that she does not belong in that store.

Some consumers in the upper class will purchase appliances in discount stores if the products are nationally advertised ones. It is felt that the name brand assures the consumer he can not go wrong. However, furniture tastes are considered to be more subtle and elusive and brand names are not generally well known. The consumer from an upper class is not likely to put her taste on trial, and rather than make an obvious error in taste which would reflect ignorance of the correct status symbol, the consumer will generally go to a status store because she needs the support of the store's taste. 56

55 Ibid., p. 138.

In considering Warner's social class stratification, Coleman states that marketers have not always found the class concept "immediately and obviously relevant."\textsuperscript{57} According to Coleman, social class stratification has shed light on advertising and merchandising problems and other times it has not. For example, in many of the Southwestern cities, almost all recognize the necessity of having air conditioners. Whether or not a family owns an air conditioning unit or not depends on family income and not on social class. The expansiveness of home air conditioning from a one room unit to complete central air conditioning is directly related with family income.\textsuperscript{58}

It is recognized that the study of class structure does not hold all the answers for marketing decisions. Class structures are not static, and marketers who rely only on class structure to guide marketing policies will fail to realize the many dimensions of consumer motivation. Some implications for marketing management have been demonstrated from sociological research, but it is difficult to determine how much impact sociological contributions have had on marketing.\textsuperscript{59}


\textsuperscript{58}\textit{Ibid.}, p. 168.

\textsuperscript{59}Jonassen, \textit{loc. cit.}, p. 33.
3. Cultural Background Important for Marketing

Psychologists and sociologists are playing increasing roles in business affairs, especially in marketing. In addition to using them as outside consultants, some firms now employ psychologists and sociologists in the marketing department. Marketers are also becoming aware of the role the anthropologist can play in giving advice on marketing problems. It is considered surprising why anthropologists and marketers have not found a more common ground, since anthropologists have helped in developing sales training programs and in designing seats and chairs.60

According to Winick, there are least three kinds of situations in which anthropology has helped marketing. One way is through specific knowledge of cultural patterns. One manufacturer of central heating units wanted to introduce his products into a new territory. This attempt was met with strong customer resistance. The company called upon the services of an anthropologist who used his knowledge of folklore and symbolism of fire and heat for suggestions in introducing the heating system. "... so as to make it as consonant as possible with the connotations of heat, even though the nature of the heating method changed radically."61 Early resistance to the product decreased substantially after the first year.

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61 Ibid., p. 56.
In addition to overcoming consumer resistance, the heating company had to overcome a public policy problem to get approval for the system. The area in question had a declining birth rate and officials feared that central heating would cause even a greater decline. The basis for this fear was the belief that heated bedrooms would lead to a decline in sexual activity, resulting in a lower birth rate. The anthropologist was able to produce statistical evidence that while in some cases, birth rates declined after the installation of central heating, in other cases there were no declines in birth rate. Armed with this evidence, the heating equipment company was able to present to the appropriate officials a sound case. After reviewing the evidence, the officials permitted the company to go through with its plans.

Clothing and fashions is another area in which the anthropologist has used specific knowledge to the benefit of the marketer. Winick states that, "The only empirical study of the fashion cycle in women's clothing which has successfully been used for predictive purposes by clothing manufacturers was conducted by anthropologists." For marketing purposes, anthropologists have used their special knowledge of the needs of the body for children's clothes of various kinds for various ages, together with their awareness of fashion and sensitivity to possibilities of technology.

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62 Ibid., p. 57.
A leading manufacturer of children's clothes consulted an anthropologist who examined overalls in terms of the needs of children who wear them. Consideration was given to the increasing use of machine laundering, the relative frequency of washing, and contemporary technology. The anthropologist suggested new fasteners on the overall straps to allow for growth, strap improvement, and double stitching the seams of the garment. These recommendations were accepted. Within a few years, the nature of the overall market was changed and expanded.

In another case, a large Eastern beer manufacturer consulted an anthropologist who was familiar with the subculture of Negroes and the effect of caste membership on purchasing. Many Negroes were conscious of whether a brand connoted status and racial progress. The anthropologist examined the manufacturer's marketing program and made recommendations. The manufacturer began supporting several major Negro social events and changed the advertising appeal of the beer to enhance the product. Emphasis was placed on the fact that the beer was a national brand with quality control. The theme of status and prestige connoted racial progress in the minds of these consumers.

A last example of a situation in which the anthropologist has used specific knowledge to help marketers is package design. One manufacturer of women's products used a Fleur de Lis emblem on packages. An anthropological analysis suggested that the emblem
was associated with French Kings and other connotations of masculinity. A field test confirmed the analysis. As a result, the manufacturer changed the package design.

Another kind of situation in which anthropologists have helped marketers is awareness of themes. Winick states that anthropologists are the only social scientists who have studied gift giving and gift receiving. The following example shows how this knowledge was applied by one company.

A candy manufacturing chain company began to suffer a sales decline. The candy was usually bought as a gift. A consulting anthropologist gave guidance on the symbolism of gift giving. Merchandising, packaging, and advertising formats were developed for the gift theme. Connotations of major holidays suggested different themes for window displays and for advertising the candy in conjunction to the holidays. The candy company changed its marketing strategy based on the anthropologist's findings.

Another situation in which anthropology has influenced marketing decisions by awareness to themes is being sensitive to rites de passage, or the transition from one stage or phase of life into another. A shoe manufacturer suffered declining sales. An anthropologist was retained to study the problem and make recommendations to management. The anthropologist was aware that to an extent, shoes are a symbol of going from one stage of life to another.
Children from four to six years of age go from a stage in which they have their shoe laces tied for them to a stage of learning to tie them themselves. At the suggestion of the anthropologist, the manufacturer prepared leaflets and brochures for parents as guides in teaching children to tie their own shoe laces. These pamphlets were distributed by shoe retailers. The shoe company felt that this contributed to making parents aware of the brand name of the company's shoes.

The first high heels for teenage girls represent passing into another phase or stage in life. At the suggestion of the anthropologist, the name "Prom," after a teenage social event, was given to a certain style and type of girls' shoes. The brand name of the shoes was associated with the "exciting new world" symbolized by high heels.

An anthropologist's knowledge that special shoes worn by older sometimes has the stigma of being "old peoples' shoes." A shoe manufacturer, upon the advice of the anthropologist, redesigned health shoes for older people. All the health features were retained, but the shoes were made stylish.

A third major category in which anthropologists are able to help marketers is in the area of taboos. Some marketers may violate a religious, political, or cultural taboo without realizing it. This is especially true in foreign markets. For instance, in Iran, the color blue is not likely to be received favorably on commercial products,
since blue is the national color for mourning. Green, the nationalistic color of Egypt and Syria, is looked upon with disfavor as a color for packaging. Displaying pairs of anything is frowned upon on Africa's Gold Coast. In Thailand, feet are considered to be contemptible and any object or design of packages showing feet are most likely to be unfavorably received. In addition to their knowledge of taboos, anthropologists can aid marketers by their knowledge of favored colors and symbols.

In the United States, the McCann-Erickson Advertising Agency helped a baking company overcome some cultural barriers to selling cookies. There is an old tradition about baking cookies "the way grandmother used to bake." It was felt that cookies in stores were easy to get, and there must be some inferior or impure ingredients in them. One baking firm had been promoting the good taste, but sales were low. McCann-Erickson developed advertising that stressed purity instead of good taste. After the new advertising program started, sales increased greatly. 63

Another situation where anthropology can be used in advertising is with ethnic groups. The Negro market for a particular product has

already been mentioned. In certain areas ethnic groups are concentrated into close neighborhoods. One company conducted successful advertising campaigns in the Latin area of New York City. These campaigns brought out the significance of point of sale merchandising to close ethnic groups. Because of the concentration of Latin population, and the closeness of Latin owned grocery and drug stores, store level merchandising in the Latin neighborhoods is particularly effective. 64

Although anthropology has helped marketing through knowledge of cultures, "The most obvious contributions he can make is helping us to sell in foreign markets." 65 It is felt that more can be done in the future than can be done now.

Marketers have consulted psychologists, sociologists, anthropologists, and social psychologists on specific problems. Solutions were found in many cases. But sometimes problems are studied from "... limited perspectives of a particular subject-matter area." 66 The cross-fertilization needed to meld ideas and integrate widely applicable generalizations has been lacking.


65 Sheldon, op. cit.

Studies of marketing have been concerned mainly with marketing phenomena, *per se*. Little reference has been made or is being made to the work of the social scientist. Marketing is beginning to make use of the interdisciplinary approach because problems are becoming recognized as more social, rather than merely technical.67 Perhaps the social and cultural environment will be of more concern to marketers in the future than it has in the past.

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CHAPTER VI

ECONOMIC ENVIRONMENT AND MANAGERIAL DECISION MAKING

Among the environmental factors affecting managerial decision making, some conditions of the economic environment are considered by many businessmen to be generally beyond their own power to influence. They realize that they are affected by general business trends, but can, on their own influence the trends little, or not at all.¹ Rather, they view the general business trend in terms of expected and current consumer demands. In this case, managers watch the fluctuations in consumer demands and attempt to adjust to them.

In this chapter, consideration will be given to the behavior of business firms under two general types of economic trends; an upswing in business activity or a generally expected smaller demand. More emphasis will be given the latter condition as it occurred in the early 1930's because of the uniqueness of some management's decisions to attempt to expand sales in the face of widespread adverse conditions.

In addition to general economic trends, the factors of competition, and technology will also be covered.

A. General Economic Conditions

1. General Increase in Demand

Katona states that empirical evidence shows that businessmen usually seem to have "fairly definite notions about the economy's approximate position in the business cycle." Whether or not these expectations are true, they generally affect a manager's decisions. When there is a general optimistic outlook for the economy, a manager commonly interprets such an outlook as an expected larger demand for his product. Whether the expected increase in demand comes from the general optimistic outlook, or from an expected increase in demand in a particular area, there are three general possibilities regarding output and pricing facing the businessman. He may keep production constant while raising prices; he may increase both volume and prices; or he may increase volume while keeping prices constant.

From reported observations, managers, in general, have a desire to increase volume. Businessmen report that price rises are too risky. They usually consider the possible reaction of customers and businessmen. Consumers may increase purchases after a price rise in

\[^2^\text{Ibid.}, p. 222. The discussion on a general increase in demand follows Chapter X.\]
anticipation of further increases; the price increase may not affect
demand for certain products; or the quantity demanded may drop be-
cause of a price increase. From information reported in surveys,
some businessmen are aware of these possibilities, and the uncer-
tainty is why managers consider price increases risky.

Many managers also are uncertain as to how competitors will
react to a price movement. That if competitors do not follow suit
they may enlarge their share of the market is the belief of some
businessmen. Sometimes, price increases can be made only after
a technically involved process. Increasing prices may mean changing
the prices of all items to keep a proper price-relation between differ-
ent products, whereas, reduction in output can usually be restricted
to one or a few products. Decisions on restriction of output can
generally be made more easily than price retractions. Output can be
cut back if an increase in demand is not materialized, but a retraction
in pricing may have adverse consequences on the business. However,
there are no conclusions as to decision in specific situations that will
be valid for all businessmen.

Katona states that empirical demand data are not available re-
garding the frequency with which the possible decisions have actually
been made, but it can be concluded that businessmen will frequently
react to an expected increase in demand by increasing output while
holding prices steady.
2. **General Decrease in Demand**

There is perhaps no major change in business activity without some adjustment in business inventories. Young has pointed out that, "Frequently the existence of excessive or subnormal stock has been the prime mover setting into motion the whole complex of events that accompany cyclical changes in business."\(^3\) Whatever the normal level of inventory is, would vary from industry to industry, and from company to company, depending on the products and policies.

A pessimistic general economic outlook seems to be the most important factor leading to expectation of lower sales. At any given time in which businessmen feel a downward trend is eminent, major business decisions may follow similar circumstances of the preceding section. Following the traditional approach, reduction of prices may be the first and foremost decision. This view may be supported by a psychological desire to maintain volume. But it has been found that businessmen often consider matters that speak against this type of decision.

Many businessmen consider a reduction of prices to be risky. Managers are concerned with the way in which customers view the

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lowering of prices, and from surveys, businessmen think that customer reaction cannot be foreseen.\footnote{Katona, op. cit., p. 224.} It is uncertain whether customers consider the reduction a temporary measure, soon to be raised again; the beginning of a series of reductions; or a new stabilized level. Managers also frequently raise the question of how competitors will react to price reductions. If the competitor does not follow suit, an advantage may accrue to the price reducer; but there also may be disadvantages to a price reduction. If two products are similar, a lower price on one may connote an inferior product. If competitors follow suit, the advantages would be similar for all. In addition to the uncertainty of probable reactions, many businessmen believe that a price reduction is hard to retract.

It is probable, therefore, that managers prefer to reduce output rather than reduce prices. This is not to say that prices will not be lowered if a decline in sales is expected; it is only that managers have reason to prefer price rigidity. The recession and depression of the 1930's witnessed many price reductions.

Managers are not limited to the two alternatives of reducing prices or output. Other alternatives have been followed. With a reduction or anticipated reduction in sales, some managers may attempt to lower costs further--prices may be reduced after lower costs are
realized; thus, cost-price relations and operating profits are maintained. Other managers may make indirect price reductions by changing the terms of sale, lowering quality; or, they may change the products to stimulate sales in spite of general adverse conditions. Advertising and sales efforts may also be increased.

Following are examples of how firms have attempted, and apparently with some success, to maintain and increase sales and profits during the adverse periods of the early 1930’s.

Dickinson asked the Standard Statistics Company, Inc., to prepare a list of companies whose earnings were above the average during 1930. 5 It was found that a large number of companies were making more money in 1930 than in the boom year of 1929. Many more were making almost as much. Results from a survey of cross-section of business show what decisions these businessmen reached during the first year of the depression.

The American Safety Razor Company doubled efforts to perfect merchandise. The company also intensified its selling efforts and continuously encouraged the salesmen. The firm sought and received dealer cooperation. The advertising budget was not decreased; instead, the company made a more critical examination of where advertising

the company made a more critical examination of where advertising copy was placed. No salaries were lowered. The razor company increased distribution at a lower cost per unit.

The General Foods Corporation introduced new products in 1930. Packaging was also improved. The company did lower prices some which helped maintain the same volume of cash sales. Advertising was continued on the same scale as that of 1929. Monthly inventories were made of distributors to see exactly where extra sales effort was needed. Sales territories were reduced in size so as to enable salesmen to do more intensive work. Integration of recently merged companies made for more efficient methods of operation.

The Air Reduction Company sought new uses for its tools. Mr. C. E. Adams, President of the firm stated that in periods of depressions the application of tools is often stimulated in order to bring about economies that might be overlooked in periods of great expansion. The company found it advisable, and even necessary to increase the number of personnel in the applied engineering field to work with customers in studying specific problems and to help the customers increase efficiency in the shop operations by using Air Reduction products.

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6 Ibid., p. 8.
The Bon Ami Company attributed its better than average record in 1930 to certain economies realized in the factory and in general operations. The President of the company felt that the sizable increase in the advertising appropriations and an increased sales effort also contributed to the firm's position. Another contributing factor to the favorable position of the company was a well known product at a small price. The company also made sure the quality of the product was maintained at all times. Thus it seems that decisions regarding economies within the factory, advertising, sales effort, and maintenance of quality in the product accounted for a relatively successful position in a general period of decline.

Decisions made in 1929 to maintain quality in the product instead of considering the question of price only was felt by the President of the Real Silk Hosiery Mills to be a leading factor in that firm's favorable position. The President stated that other mills were manufacturing great amounts of merchandise considering only price. The company further developed its sales organization plans which were made in 1929. Even after the stock market crash, the company decided to go through with its plans. As of the latter part of 1930, Real Silk's Mills were working day and night as they had been all year. In at least one department it had been necessary to work overtime for several weeks.

The company employed more people in the Fall of 1930 than it did in 1929. There were no wage and salary reductions and no forced
vacations. During 1930, business increased every month of the corresponding month of the previous year. In summary, decisions to build a stronger sales program and maintain quality seem to be the deciding factor in the firm's position.

The A. P. W. Paper Company had an increase in sales while other firms were experiencing losses. A. P. W.'s President felt the credit went almost entirely to distributors and the sales force. The company came out with no new product; rather, a policy of slowly and systematically reducing the number of items manufactured was followed. The company consistently advertised, although modestly at first. Plans were to slowly augment the present advertising using more space and various media. At the time of the report, the company felt the favorable position resulted mainly from constant attention to the sales force and distributors and the company's refusal to admit bad times.

National Biscuit Company was another company that fared better than average at the beginning of the depression. The company undertook no new policy, but followed the already established policy of making the best product to reach the customer in the best possible condition. The company felt this was especially important in bad times when the consumer may hesitate over a purchase. New products were continuously brought out while old ones were dropped. Packages were improved, and the company opened new branches when opportunity invited
it. The company advertised generously. The president of the company said, "When money is scarce, we work harder for our share of it."\(^7\)

For the first nine months of 1930, net profits were $795,020 over the corresponding period of the boon year, 1929.

The U. S. Dairy Products Corporation went under the assumption that with buying power curtailed, purchasing would be down; so the company launched a vigorous campaign for new customers and got them. Further, the firm felt that sales for certain products would go down; thus, efforts to move other products were intensified.

Closer attention was paid to advertising; it was made to fit different conditions in different territories. In some cases, prices were reduced, and an increase in advertising resulted in increased sales. In other cases, the quality of certain products was increased. For these products, the company raised its prices and aimed advertising for these products to certain classes of customers. For these products, sales were also increased. The company also strived to eliminate waste. Interchange of raw materials among various milk and ice cream subsidiaries saved much money. In some areas, the company could not keep all personnel employed, but instead of laying them off, the

employees were transferred to other areas. At the time of the report no personnel or wages had been reduced.

At the beginning of 1930, the executives of Holland Furnace Company met to plan operations for the ensuing year. It was the consensus that in times of curtailed purchasing power, consumers would purchase necessities instead of luxuries. With this in mind, the company set forth a program with the largest sales organization in the company's history backed by an increased advertising appropriation. As of the middle of 1930, it was too early to note any specific results as the heater buying season had not yet started. The company felt sure that positive results would accrue.

Boylan reported that the Drakett Company did not do anything spectacular to increase sales 42% during 1930. But the company did make decisions for positive action in that as scientifically as possible, it developed a proper sales requirement for each division and market trading area. Salesmen were supplied with population figures, statistics on advertising circulation and sales experience for each trading area, city and town. Sound policies, effective advertising, and efficient sales management were believed to have been the causes of the sales increase.  

The decision of management at the Comfort Coal-Lumber Company to make salespersons out of all employees helped in putting the company in a favorable position during the early months of the depression. The company management felt like the best way to lick the depression was to sell merchandise. The main question faced was, "How?" The firm felt it could hire no additional salespeople when demand was off, payrolls in the area were dropping, and business conditions were beginning to tighten up. Management hit upon the idea of selling the idea of all employees selling company products. No premiums, bonuses, prizes, or anything in a remunerative nature was offered as an incentive to sell. The employees were asked to "create sales" among their friends, neighbors, and speaking acquaintances. As a result, accountants, office workers and various other personnel began to bring in sales from their off-duty contacts. The company felt that participating in selling changed the attitude of the entire organization and sales potential was uncovered in several areas of the company.9

One company adopted a short-term practice of selling without profits to keep workers employed. The Hardman, Peck, and Company, piano manufacturers, had as their slogan, "their hands shall not be

idle." The company confidently looked forward to new prosperity, but the present concern was to keep the employees working now (1931). Management offered to sell for six days, absolutely without any profit any piano it made. Sales for the six days were ten per cent of the total 1930 sales. It was reported that with the expiration of the sales period, sales were expected to return to a normal volume.¹⁰

The American Chain Company was convinced that 1930 was the best time to advertise. Although the company advertised all the time, it was felt that the business situation in 1930 offered a particular propitious advertising opportunity. This advertising was separate from regular sales advertising. In September 1930, the chain company began a campaign of institutional advertising that was to run into 1931.

A major executive of the company said:

We believe that advertising now will accomplish two major purposes—and possibly a third. Our campaign will attract more attention than it might attract at other times. It will tend actually to build business during a period of general slackness and prepare the way for new sales achievements in 1931 and 1932. And possibly in its course, it will contribute by example—to business confidence, to the restoration of morale in the varied markets and the varied industries in which and to which the American Chain Company, Inc., and its associated companies sell.¹¹


As the depression wore on into 1934, many managements were still bringing out new products, redesigning packages, and advertising to keep and/or gain sales. Those who felt that their houses were in order were forced by the pace of change to regard complacency as a decisive liability.12

After President Hoover's conference with business and industrial leaders late in 1929, many firms held, at least for the time being, to a "no wage cut policy." Some firms reduced the working day instead of the working force.13 During the first two years of the depression wages were kept relatively high. By 1932, however, many firms were without profits, and many pressures caused wage cuts until the fell considerably. Some businessmen, particularly large employers, influenced by the President, economists, and labor leaders, tended to keep wages relatively high to maintain purchasing power in an effort to combat the depression. There were more wage cuts in smaller companies than in larger ones. It was contended that smaller firms were "less enlightened" than larger firms, and also they were not as fully in public and governmental view.14


13"This Time They Did Not Cut Wages," Business Week, January 1, 1930, p. 23.

During a recession or depression, many firms tend to reduce inventory and rely on small orders in carrying out hand-to-mouth buying. Existence of attitudes of fear and caution is a condition favoring hand-to-mouth buying. A depression lends itself to making no commitments, or to hesitancy in making them beyond those absolutely necessary. Inventory value may be lost when prices decline. Rapid changes in demand for small lots compelled manufacturers to adopt more flexible organization and policies. This adaptation has been made possible, in part, by progress in manufacturing technology and improvement in transportation and communication.

Tosdal stated that there had been relatively few extensive studies on hand-to-mouth buying, but from observations and collected cases a general statement could be made; in numerous lines and for many specific companies, a trend to a larger proportion of smaller orders had been undertaken. Although the data were collected three decades ago, the effect of hand-to-mouth buying on business firms seems just as applicable today.

For the manufacturer, there are risks and difficulties in producing for markets. Manufacturers who produced for firm forward orders could regulate production, employment, and purchase of raw materials more

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easily and with less risk than can generally be done with smaller orders for immediate delivery.

Wholesalers who took advance orders from retailers had much more assurance in buying from manufacturers. In hand-to-mouth buying, retailers tend to shift inventory with its concomittant risks and costs to the wholesaler. The wholesaler in turn, tends to shift inventory back to the manufacturer—sometimes with success. Retailers giving no advance orders to wholesalers, and wholesalers to a smaller and smaller extent making advance commitments to manufacturers, render the manufacturers less able to arrange his schedules.

Smaller, more frequent orders generally result in more calls, increased costs per call, increased costs per unit for handling, billing, etc., resulting in rising marketing costs. During the early 1930's, except for some narrow specialty lines, no shortage of goods caused a need for advanced buying. By and large, manufacturers had to gear up for greater flexibility and maintain stocks at convenient points and exert more continuous sales effort.

Tosdal stated that some firms, in order to increase order size and encourage forward buying, have used price inducements. Post-dating on special credit terms have also been used. Some firms established minimum size orders, and cooperated closely with retailers and wholesalers in maintaining stocks to avoid fill in orders.
Other firms restricted solicitation of order to profitable or potentially accounts, or to buyers who gave sizable orders.

Not all firms encouraged large size orders. In an attempt to prevent overstocking and unbalancing inventories, and to prevent working capital selling and storage space from being tied up, the Nunn, Bush, and Weldon Shoe Company urged dealers, if necessary, to order only one pair of shoes at a time, daily, by post card. The company did not consider this an emergency measure as it had been working on such a plan for several years. It recognized that there would be diseconomies in purchasing hand-to-mouth, but these would not be as great positive loss in sales due to out of balance stock which would cut down on range of selection.

In summary, it can be seen that managers' decisions are affected in various ways by the general economic condition prevailing. Expectation plays an important role in the decision making process. As important as the economic conditions are, other factors in the economic environment also have an effect on decision-making.

B. Competitive Factors

Within the economic environment business firms generally operate with a view of the actions of competitors. Among the influences exerted by these actions, those concerned with pricing are important, as well as various forms of non-price competition. As noted in
Chapter II, toward the latter part of the nineteenth century as competition among firms increased, many companies cut prices in an attempt to gain more sales in order to produce at full capacity. Strong companies would operate at a loss until weaker ones were forced out of business, and some firms combined to fix prices and divide the market. These practices led to antitrust and pricing legislation.

In this section attention will be given to the effects of competition on pricing aside from legislation. Next, consideration will be given to other types of competitive action, e.g. non-price competition.

1. Effects on Pricing

It is felt by many that price is the pivotal activity within the capitalistic system of economic enterprise. Stanton has declared that, "Price becomes a hub around which the system revolves; it is the balance wheel which keeps the system operating on an even keel. Imperfections in pricing are an indication of imperfections in the system."\(^{16}\)

Many complex factors are sometimes involved in setting a selling price. Attention in this section will be limited to competitive factors. With the prevalency of monopolistic competition, advertising, and

\(^{16}\)Stanton, \textit{op. cit.}, p. 432.
product differentiation in the economy, there may be the tendency to overlook the fact that there is a considerable amount of competitive pricing today. Some managements may use price competition by regularly offering prices which are as low as possible. A minimum of services are generally offered with this type of price competition.

In a study of price determination at the department store level, Bliss concluded that homogeneity of product which makes rivals feel that they have to meet lower prices is most prevalent in national brands. In some cases, such items are fair-traded. It was also concluded that the slowness of competitors in following price cuts often encourage "... a certain disregard of their probable actions by the price setter." 17

For goods carrying the price setting stores' private brand, the determination of price is removed somewhat from threat of retaliation, leaving the price setter with more freedom in deciding whether to sell at, above, or below the market price. There is price leadership in some department stores. Many department stores carry certain lines for which they claim local leadership. The reputation for leadership is zealously guarded. Lines in piece goods, housewares, and women's wear are often leaders. The price setter knows that his prices on such

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lines must be determined with this leadership in mind. "Unless he wishes to challenge the leadership of a rival, prices must follow the historically set patterns."\textsuperscript{18}

Many firms follow a policy of meeting prices of any competitor. This is done to prevent customers from going to another seller and letting the seller know that price cutting will be met quickly.

Price cutting, as a form of pricing competition, involves cutting prices below the established market levels, or below a previous level used by the seller. Price setting below the market price is generally done in the hopes of expanding sales. Straight price cutting invites retaliation. Highly competitive markets (markets of similar products) frequently experience price cutting tactics. Price cutting, resulting in price wars, sometimes occurs in markets which normally operate under nonprice competition, when firms openly seek to increase business by price concessions.\textsuperscript{19}

A price war may not actually mean that one firm is going all out to gain customers; it may merely be a maneuver among firms in the market to test and readjust "limited agreements which ordinarily function under nonprice competition."\textsuperscript{20} A so-called price war may also represent

\textsuperscript{18}Ibid., p. 46.
\textsuperscript{20}Ibid., p. 252.
an appearance of some underlying competitive force, leading to a
more permanent readjustment reflecting trends of cost and demand.

In industries containing different sizes of firms (such as the
gasoline refineries), the giant firms may use a price war to bring a
small firm in line. A price war in such a case would serve as a re-
reminder to the smaller "independent" to not be too aggressive. Some-
times a smaller firm, an "independent," may cut its prices. In
reaction to this price cut, a large company may touch off a price
war. The gasoline industry is such an example. Homan, et. al.,
state that:

... the national reputation of the big companies
makes it necessary for the independents to sell at a
slightly lower price in order to compensate for buyers'
doubts about the quality of their product. A 'traditional
differential' takes shape. But if an independent tries
aggressively to build volume by enlarging the differential
(or to get more benefit from it by establishing a wide reputa-
tion for quality), he may get to be enough of a nuisance so
that the big companies cut into his differential, or even
eliminate it, by price cuts. 21

When larger firms put pressure on smaller independents through
a price war, it is most effective when it is confined to the small firm's
area; allowing the larger firms to maintain earnings in other areas.
However, a large firm that openly attacks a small competitor, is
vulnerable under the antitrust laws. Because of this fact, price wars

21 Loc. cit.
usually begin, on the surface, with a local group of dealers. The refining company can support the dealers by making a price cut in his tank wagon price. The courts usually accept this price reduction as "made in good faith to meet competition."

A price war may also be a way of testing relative market strength among major firms in an industry. Some members of the industry may not like the established price and cut it to one that suits them better. Firms which like a higher price may either accept the change, or, they may undercut the new price to punish the price cutters and to reverse the change. An open price cut such as this is an invitation to retaliation. Homan, et al., conclude that, "A firm that is never willing to fight in order to follow the policy it regards as best for its own interests may expect to fall behind in the competitive struggle."22

There are variations of price cutting. One variation includes "deals," which are temporary price cuts to introduce a new product or to promote an established product. Usually these are tolerated in hopes that prices will soon return to normal. If these deals are in effect for too long a period of time, other firms may retaliate. The deals may lose their effectiveness as they may become habitual prices—as they sometimes do in the drug and food industry. The

22Loc. cit.
customers may buy only the deals, and over a period of time the
general price level for those goods is lowered.

According to McCarthy, these deals may be desirable from the
firm's point of view.23

If the firm has an elastic demand, and the price is lowered,
total revenue will increase. If the firm faces an inelastic demand,
continuous use of deals may be unwise because of an expanse in sales
at the expense of total revenue. McCarthy points out that:

Research studies on foods and drugs have suggested
that these deals do not change long-run demand much,
probably due to inelastic demand. While the particular
firm's product is being offered on a deal, its sales may
expand by switching business from competitors. But when
dealing stops, the brand settles back to its predeal level
unless competition begins to deal, in which case the
quantity sold decreases drastically.24

Many firms use comparison shoppers—shoppers who go to
competitor stores to determine pricing and articles of competition.
Competitive pricing is considered to have its greatest use for items
of wide distribution, which are easily identified and compared because
of brand name or grade, and which are characterized by high frequency
of purchase or a unit value.25

23 McCarthy, op. cit., p. 664.
24 Loc. cit.
25 Brown and Davidson, op. cit., p. 394.
As previously indicated, some firms follow the policy of meeting the price of any competitor. In Boston, Massachusetts, a comparison was made of prices of 90 easily identified, nationally advertised products for sale in eight different chains.

It was found differentials were so slight that the aggregate for all 90 products was within a range of $30.90 to $31.08 for all eight chains in a given week. Prices of specific items were commonly identical among most of the stores, and where differentials existed, they were usually limited to one or two cents on an item.\(^{26}\)

Competition has to do with rivalry—thus, price competition is related to using price for attraction and retention of patronage. A firm following a policy of price competition stands ready to alter its prices when it is felt necessary to do so to obtain and/or retain sales volume against rival firms. In the broad sense of the term, all retailers engage in price competition as prices are adjusted from time to time to gain or maintain sales volume. Some firms pursue price competition more aggressively than do others.

The position of the seller in relation to the market determines, to some extent, the amount of emphasis placed on price as a competitive tool. Operators of large volume firms who are competing with other operators who are more conveniently located to the various segments of the market will more likely make a more aggressive use of

\(^{26}\text{Ibid., p. 393.}\)
price than smaller rivals, in order to gain volume and operate more efficiently.

Conversely, it is felt a small market operator might be able to use price aggressively in seeking volume without causing the larger rivals to meet his quotations because the amount of business that he takes is small as compared with the cost of counter price reductions which might have to be made on larger-volume operations.27

2. Price Leadership

One practice similar to meeting competitor pricing, but with the aim of keeping prices stable, is price leadership. Patterns of price leadership are seen in some oligopolistic industries in which prices of smaller firms are identical or near to those of dominant firms. Prices are then varied to the approximate same extent that those of the dominant firms vary. The policy of "follow the leader" is felt necessary in industries in which price is an important buying motive, and in which there are one or a few large firms dominating the field. The small seller generally realizes that he cannot undersell the dominant firms without serious repercussions; it is also unlikely that he can oversell. It has been charged that oligopolized industries seemed to have seriously tried to limit effective competition and to

diminish uncertainty, "which had always accompanied genuine competition." 28

Price leadership does not demand collusion, but it does need a firm willing to set its prices publicly and other firms to follow. U. S. Steel Corporation's prices are emulated by smaller producers. Model for model, there is little difference in prices between Ford, General Motors, and Chrysler's automobile. 29 Standard Oil Company of New Jersey, and American Sugar Refinery Company are watched closely and emulated by smaller competitors. 30

Price leadership exists when the price at which most of the units in an industry offer to sell is determined by adopting the price announced by one of the members. There may be departure from leadership, strictly defined, in that other firms may not always change their prices simultaneously with changes announced by the dominant unit. Occasionally, other firms in the industry may initiate changes. One firm may be a leader at one time; another firm at another time. It would be expected that for any industry with a leader at all, that leader would be the largest firm. As Burns put it, "The largest unit has the greatest interest in preventing price cutting. It is likely

29 Ibid., p. 110.
30 Beckman and Davidson, op. cit., p. 698.
to be most able to enforce its policy upon others because it is likely to command the greatest amount of unused productive capacity and financial reserves."^31

The cigarette industry serves as an example of price leadership going from one company to another. For many years the Reynolds Tobacco Company was the price leader in the cigarette industry. In 1918, The American Tobacco Company attempted to lead with a large price rise. Reynolds would not follow and American retreated.

In 1921, American cut its price; Reynolds followed with an even greater reduction. "Thereafter, Reynolds made important changes with Liggett setting an identical price and American setting a related but slightly higher price. Reynolds led all further price changes until 1933 and all price rises until 1946."^32 Since the end of price control after World War II, and until 1950, American has led two price rises, with Reynolds adapting to the American lead.

It has been observed that U. S. Steel seems to set the effective prices for steel in the United States. When U. S. Steel announces an increase in the price of steel, both major and minor steel companies generally follow. There may be exceptions to this; one exception was


mentioned in Chapter IV. The general policy of U. S. Steel has been to resist any considerable price increase in times of high demand for steel products and to oppose any marked reductions in times of low demand. The company has tended "... toward constancy of prices through considerable periods even though there might be a lack of uniformity of prices as various particular times."³³

Steel spokesmen defend their policy of stabilization as a necessary evil—if it be an evil as has been charged.³⁴ Steel is considered to be a "prince or pauper" industry; the demand for steel is subject to rather violent cyclical fluctuations. Industry leaders point out that the demand for steel is derived from the demand of producer's and consumer's goods; both use steel in the manufacture of those products. The leaders also state that steel is subject to the operation of the acceleration principle since steel is raw material for desirable goods.³⁵

The steel industry is concerned with the havoc the acceleration principle creates in bad times. Under these circumstances they feel that price flexibility could not be instrumental in stimulating demand, and increasing production and employment. They feel that since the

³⁵Burns, op. cit., p. 181.
industry has high overhead costs, an inelastic demand, few sellers, and a homogeneous product, a reduction in price in times of depression would lead to destructive competition. As Burns summarizes the idea, "The policy of stable prices springs, therefore, from a dual source, the hope of eliminating price cutting from a situation in which it may be very costly, and the hope of mitigating the cyclical fluctuations in demand which lead to undue price competition." 36

During the early 1920's, General Motor's Frigidaire was the leader in mechanical refrigeration. During this period, General Electric's new refrigerator—a one piece unit—appeared on the market. Although there was rivalry between General Electric and Frigidaire, there was no sustained price competition. One former official of General Electric said that there had been no written agreement between Frigidaire and his company; however, he was instructed never to set prices below Frigidaire prices; General Electric's prices were uniformly higher because of higher costs.

During a brief war in the 1920's, Frigidaire cut its price in Pittsburg, Pennsylvania, and General Electric made a corresponding reduction. The next day Frigidaire again lowered its prices and General Electric followed. There were a total of three reductions in five days

36 Ibid., p. 216.
with General Electric following Frigidaire.\textsuperscript{37} Overall, there has not been very much price cutting in the refrigerator industry as General Electric took the lead as price setter. The manufacturers' prices for many major appliances seem to follow the prices set by General Electric rather closely for comparable equipment.\textsuperscript{38}

As pointed out above, price leadership does not demand collusion; rather, it needs a firm to set its price publicly and other firms willing to follow. From time to time collusion has existed, either tacitly, or by explicit agreement. Thus, price leadership may have led to the conspiracies recently uncovered in the electrical equipment manufacturing industry.\textsuperscript{39}

Almost the entire electric equipment industry was involved in a conspiracy to fix prices on about 100 products. Business was allocated through false bids on large contracts. The group even dictated the kinds and new prices of new products that members of the group developed. The motives leading to the conspiracies were perhaps many and varied. Gates has pointed out that some in the group, appearing to be in the minority, were hardened individuals who were out


\textsuperscript{38}Homan, et. al., \textit{op. cit.}, p. 243.

to succeed regardless of the consequences. Other were close friends of others in corresponding competitive companies and felt that they were doing a good turn for certain ones by seeing to it that they got enough business to keep in the black. Some seemed to be torn between their recognition of unethical conduct and the fear that, unless the smaller companies could survive, the larger ones might be attacked by the government with anti-trust laws.\textsuperscript{40}

It is interesting to note that in May, 1963, General Electric announced a price policy which was intended to stabilize and equalize price in the turbine industry.\textsuperscript{41} The firm sent letters to about 200 utility and consulting firms announcing a three-point policy. The same price was to be offered to all customers--25 per cent off the handbook list price. The price policy was to be open for three years with no escalator clause. If competitors force General Electric to lower prices, the reduction was to be retroactive for all orders booked for six months prior to the reduction. The stated aim of the policy was to avoid rigorous price cutting as that of January, 1955.

In a recent federal antitrust charge, the price leader in the steel industry, U. S. Steel Corporation, and eight other large steel firms were indicted for allegedly conspiring to fix prices in the carbon sheet

\textsuperscript{40}\textit{Loc. cit.}

steel business. Although sheet steel at a base price, other charges are added for tailoring the steel "... to specifically ordered size, gauge, quality, metallurgical content and other processing requirements." The government claimed that the firms were rigging the extra charges in secret meetings. No trial date has been set at the time of this writing.

3. **Non-Price Competition**

Backman states that the institutional evolution of the United States economy serves as a basis for explaining the emphasis placed on non-price factors. The increasing complexities of many products with the attending difficulty in comparing them directly makes differences in prices a less significant yardstick as compared with a more simple economy. The average consumer's knowledge is limited for such items as automobiles, washing machines, and refrigerators, resulting in their not being able to compare similar products. To a large extent, consumers rely upon the reputation of the seller and the effectiveness of advertising. These sway consumer decisions rather than price. This is not to imply that all consumers are not price

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42 "Steel Firms Indicted on Antitrust Charges," *The Baton Rouge, Louisiana Morning Advocate*, April 8, 1964, pp. 1A, 8A.

conscious. In fact many stores such as the discounters operate primarily on a price basis.

Limited consumer knowledge does lead businessmen to differentiate products to expand sales. Modification of price competition resulting from price leadership, freight equalization plans, and government controls have also contributed to the emphasis on non-price competition. Backman notes that many businessmen prefer non-price competition to price competition because:

1. They generally believe that goodwill derived from nonprice factors will be more lasting than that based upon price appeal.
2. Competitors find it more difficult to match non-price factors than to match price changes. In effect, the businessman attempts to set a share of the market for himself by emphasizing the special attributes of his products. 44

There are many ways in which firms may engage in non-price competition: product differentiation, use of trading stamps, variety and quality of service offered, advertising and promotion, and others. In some cases, it may be necessary to engage in non-price competition if price competition is to be effective. "To increase sales, it is frequently not enough for a seller to reduce his prices; he must advertise his price cut, to be sure that potential customers know about it." 45

Selected examples are used to illustrate the use of non-price competition.

44Ibid., p. 90.
45Duncan and Phillips, op. cit., p. 645.
Use of trading stamps is one method of non-price competition. In one study of 616 stores using stamps in 1955-1956, 480 stores were small retailers. The study was conducted to determine the reasons for using trading stamps. In general, it was concluded that in the Post World War II decade, many merchants were in difficult competitive positions. They felt the problems stemmed from the increased importance of discount houses and other high volume, low price retailers, and the continuous expansion of modern suburbs.

More specifically, approximately 51 per cent of the retailers stated they used trading stamps to increase sales. Stamps were used by 36.2 per cent of the retailers to meet the demand of consumers; whereas, 17.4 per cent used them because the smaller retailers felt this to be the best way to compete against the large scale enterprises. Trading stamps were adopted by 25.5 per cent of the retailers because competition had adopted them. To capitalize on trading stamps in advertising and promotions was the reason given by 5.4 per cent of the retailers.46

In the earlier days when trading stamps started becoming popular, sales increases could absorb the cost, and it was considered that a non-stamp competitor paid for the stamps with business taken away from him. Now, when about 77 per cent of all supermarkets offer them,

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there may be no real competitive advantage in trading stamps. One
supermarket executive said: "I hate the . . . things. Everyone I
know hates them. Trouble is, we're afraid to drop them unless all
our competitors do."47

Although some supermarkets have dropped them, the use of
trading stamps as non-price competition is on the rise. To overcome
some of the trouble with stamps, some supermarkets have added
games such as, "Spell C-A-S-H, Split-The-Dollar, Hit-One-Hundred,
Super Poker, and Hidden Treasure to attract customers. Thus Jewell
Tea introduced Spell C-A-S-H to fight A&P in Chicago . . . ."48

The Thomas and Betts Company, Inc., manufacturers of electrical
fittings has a product approach called the "Pink Screw" policy. The
company feels that its products must have "that added something" to
make them more distinctive than competitor products. The policy of
the firm is to strive for extra quality and to make a product more
versatile than competitive products. Although the company's electrical
fittings may cost slightly more than their competitor's product, the
fittings are made more versatile and easy to install resulting in a
lower installed price.49

48 Loc. cit.
49 "How to Fight Price-Cutting Competition," Sales Management, Vol. 86, No. 4, February 17, 1961, p. 40. Reference is the same for the following two examples.
The Executive Vice-President of the Goodyear Tire and Rubber Company stated that historically, the tire and rubber industry is a highly competitive one, and that price competition was seldom a temporary matter. Almost on a day-to-day basis, costs and the market situation dictated prices. The one fundamental defense against competition, according to the official, is the company's insistence that all products, regardless of price, offer the consumer the greatest value per dollar spent. The company recognizes that the retail outlet (tire dealer) is the most important part of the sales organization, and the company tries to aid the dealer in every way possible.

The Vice-President, Sales, of the Dictaphone Corporation mentioned that the company had a full-time service department which is the largest in the industry specializing in preventive maintenance. The firm offers expert analysis to help the customer determine the most efficient type of dictation system to fit the particular needs. Teaching aids and personal help to train secretaries and dictators are offered by the company. The Vice-President noted that price competitors and importers did not offer such benefits. He said, "So our answer to price cutting is to emphasize the fact that Dictaphone is in the best position to give value, to serve customers with methods,
systems, services and products designed to make written communication easy, economical, efficient."\textsuperscript{50}

According to one writer, the department store is a multi-product firm. Management, in choosing competitive weapons to seek sales increases, sees sales not only as a function of price, but also of many other non-price factors. For particular departments and for the store itself, sales is a function of location, display, personal selling, advertising, credit, and other variables. Sales are just as elastic to the above variables as they are to price. The different non-price variables have different elasticities. Thus, management considers various factors in addition to price in meeting competition.\textsuperscript{51}

In a study designed to answer the question, "What are the key policies and procedures common to successful marketing management in various manufacturing industries?," 135 usable questionnaires were received from companies selected from \textit{Martindell's Manual of Excellent Management}. Almost 80 per cent of the respondents chose product research and development as most important in modern-day competitive strategy.\textsuperscript{52}

\textsuperscript{50}Ibid., p. 41.

\textsuperscript{51}Perry Bliss, "Non-Price Competition at the Department Store Level," \textit{Journal of Marketing}, Vol. 17, No. 4, April, 1953, pp. 357-365.

This viewpoint seems to support Staudt's statement that product development and innovation have always been major facets of competitive rivalry, but that the present dynamic quality of the economy is particularly characterized by an expanding frontier of new products.

From Udell's study, it was brought out that:

... the two major facets of non price competition (product and sales effort) were subdivided into a number of policy areas; for example, sales effort was subdivided into sales research and sales planning, management of sales personnel, and advertising and sales promotion. In short, the competitive activities relating to the product and to the sales effort were selected as most important in the success of these firms.

This is not to say that pricing is unimportant. However, Udell feels that the relatively low ranking of pricing (50 per cent) is accounted for by three factors. One is that in today's competitive economy, demand is generally exceeded by supply in product capacity terms. As a result it is felt that sellers have to be almost collusive or completely competitive. Another factor is that the relatively well to do consumers of today are interested in more than price. Many consumers can afford, and want, product differentiation and sales promotion. They are interested in quality and distinctiveness which lead to psychological satisfaction.


54 Udell, op. cit., p. 44.
The third factor considers that, "It is through successful product differentiation that a manufacturer may obtain some pricing freedom."^55

It seems that, in general, identical products have to be priced identically or near identically. A too far departure from identical prices would cause loss in sales, unless some form of non-price competition were used.

C. Technological Factors

1. Some Types of Technology

Technology, as a systematic knowledge of the industrial arts, is considered here in terms of technological change. The latter is defined as the discovery of new and improved machines, tools, equipment, and methods of operation. Development of industrial technology has been continuous since the late eighteenth century and the early nineteenth century when modern industrial processes were initiated.^56

Perhaps the most spectacular manifestation of technological progress has been the increased use of machinery and mechanical processes. It has been said that "The primary purpose of mechanization

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^55Ibid., p. 45.

has been to reduce directly both the amount and kind of labor required to produce a good. 57 However, reducing the amount of labor required is not the direct objective of all mechanical or automatic improvements. The petroleum industry has used technological improvements to obtain a greater yield of gasoline from each barrel of petroleum.

Many processes have been introduced to make possible the manufacture of existing products with cheaper raw materials or waste materials. The flotation process in the copper industry to make use of lower grade ore is a case in point. 58 Some technological developments arise from the changes in the product itself. In some manufacturing industries, products have been standardized in design to allow continuous manufacturing in large volume. This effectuates a decrease in idle time attending the shift from one design to another. In the rubber industry, technological development has reduced tire prices and increased tire mileage by improvements in design and structure. 59

Technological change has resulted from efforts to economize in the use of factors of production, "And to maximize our human

58 Loc. cit.
59 Ibid., p. 527.
satisfactions with our limited resources.  

Thus, technological change arose from business organizations striving to fulfill their economic function.

There are many types of technological change. One type of change occurs in specialized machinery manufactured by companies and offered to all who can adapt and use it. This type of equipment is offered to competitors. If it is superior to machines now in use or to any other available, it is to the immediate self interest that almost impels firms to buy it. Another type of change comes through one's own invention; it is designed by the user. Old machinery operated at a higher speed is another type of technological change. This may not be important from the standpoint of design, but may have important consequences if a firm has labor problems.

New tools and fixtures represent another type of technological change. Use of new or improved materials are of another type. For example, the automobile body industry changed from wood to metal for the major parts of body structure. Conveyor systems are another type of change.

The foregoing types of technological change as discussed by Riegel do not exhaust the ways in which technological change may

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60 Loc. cit.

be used, but it gives general classification. To this list should be added information technology which will be covered in more detail below.

The word "Automation" has been coined to refer to the more advanced automatic equipment and machinery. The word is new, but not the phenomenon. The cotton gin, reaper-binder, tractor, and the steam engine were among the first mechanized processes.\(^\text{62}\)

2. **Development and Adoption**

There is a difference between the development of, and adopting, technological change. At any one time there are probably many labor-saving devices in existence that are technically feasible, but economically wasteful. Generally, when the ratio of labor costs to capital costs is low, the manager will prefer to use labor. For instance, material handling machinery was developed and in use in the United States one or two decades before it was adapted in England. These methods were known in Great Britain, but the lag in their use was accounted for by low labor cost to capital cost. One writer stated that when material handling machinery did get underway in Great Britain, it was because the ratio of labor cost to capital cost had risen. For the Morris automobile plant in Great Britain, automation

\(^{62}\)DuBridge, *loc. cit.*
on the assembly line was technically feasible in 1927, "... but was economically unsuccessful because the cost of labor saved was less than the cost of saving it."63

In addition to becoming technically feasible before it is economically feasible, the elaboration of technology leads to increasing complexities of the enterprise using it. The type of technology available for particular purposes sets the limit to the type of structure appropriate for organization. As a technology becomes more specialized, it appears that the organization's flexibility in shifting from one goal to another is reduced. Using a high degree of specialized technology, when a corporation wants to withdraw from a given industry, there may be too much difficulty in rearranging its resources. The other alternative seems to be to sell that division rather than try to rearrange the resources.

It seems that the more complicated the technology, the more difficult it is to enter the field. Perhaps it is easier for a new enterprise to enter at a time when a new technology is appearing than it is for an established company to shift resources.64


3. Labor and Automation

When automation is introduced in a firm, there is the possibility that workers will be displaced. The problem of what to do with these workers is the concern of management, labor, and the public. In many cases, automation has been introduced without the loss of jobs; workers are retained and/or transferred to other assignments. Some firms have not discharged workers after the introduction of automation, but have depended on normal attrition to cut down on the work force. Severance pay, early retirement, and contributions to union welfare funds have been used to mitigate the hardships caused by loss of jobs due to automation.

At times, labor has resisted technological change. Diebold has stated that when automation is introduced in a new plant in a new community, it is generally more acceptable than if it were introduced in an old plant in a community in which there would be potential loss in jobs. He feels that there is less resistance to building a new plant to produce new products than to convert an old plant on an automatic basis.65 Organized labor has changed considerably in viewpoint over the past few years as some labor leaders have seen the benefit--potential and actual--that can be derived from automation.

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John L. Lewis, of the United Mine Workers, was a strong advocate for automation in the coal mines. He was aware that some workers would be displaced, but for those remaining, wages would be higher. The International Longshoremen's and Warehousemen's Union realized that more automatic ways to prepare and load cargo onto ships were inevitable. For several years, the Pacific Maritime Association (the shipping industry employers' association) wanted to mechanize. Prior to 1957, several employers who had already introduced new methods wanted to unfreeze working rules on these new operations. The employers seemed to want only one goal—to have latitude under the contract to introduce new mechanized methods and to utilize them efficiently. The union wanted a guarantee against layoffs.

On October 26, 1960, the employers got a free hand to mechanize without regard to previously established work rules. Under the collective agreement, the employers agreed to pay into a union fund $5,000,000, to be used as a relief fund for idle regular workers. When work slows down, the hours of all workers are reduced so that all regular employees will receive some work.

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The Transit Authority of the City of New York has introduced many efficiencies by the use of automation and other means. A policy of not laying off permanent employees has been strictly adhered to. When changes have had to be made, "surplus" permanent employees have been transferred to other work without any reduction in pay. This policy is in agreement with the contract signed with the Transport Workers of America. The past few years have seen business managers becoming more aware of their responsibility for retraining and other wise restoring learning power of the displaced persons.

4. **Newer Applications of Technology**

New electronic data processing systems, which were specifically designed for business applications, first made their appearance in 1948. After some success and disappointments, these computers are becoming an integral part of many business organizations. The following examples indicate how electronic computers may be used in office work.

On an experimental basis, a utility company in Michigan is reading gas and electric meters by remote control. An electronic

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68Loc. cit.


gadget is tied into the telephone lines through which readings are transmitted once a month. A large California bank is using computers to review security portfolio which the bank manages for trust accounts. The computers predict returns on investment—considering the post record and the opinion of the security analyst. Stocks and bonds are listed which meet standards of safety, growth, income, and price established by the trust officer of the bank for each account.

Some insurance companies use electronic computers to make the initial decision on whether a person qualifies as a good risk for life insurance. Applications that are "out of line" are channeled aside for review by trained underwriters.

In marketing, the use of automatic data processing equipment has gotten off to a relatively slow start. Vending machines have been in use for many years. Electronic data processing machines and automatic selectors and conveyors are beginning to be used in inventory control and automatic warehousing.

The first attempt to operate an automatic store was made by Clarence Saunders in 1937. Mr. Saunders opened the "Keedoozle" store, dispensing dry groceries. Mechanical difficulties developed and the store was closed. In 1939, the store opened again, and again mechanical difficulty developed causing the store to be closed. After World War II, the store again reopened, but was closed in 1949. The
failure of this venture was allegedly due to its being too far ahead of the public's buying habits.71

In many stores, experiments are being carried on cautiously, and in many cases, successfully. Retailers and wholesalers are using computers for inventory control, billing, and processing orders, computing merchandise markdown analysis by category and department, and keeping track of overages and shortages. With electronic data processing, food chains and wholesalers are able to cut inventory by a substantial amount without experiencing inconveniences or shortages. In the garment district of New York City, Judy Bond, Inc., has a computer controlled conveyor system to assemble orders totaling six million blouses per year. This has eliminated the problem of a two-week backlog of unfilled orders during the peak season.72

The impact of automation seems greater at the wholesale level than at the retail level. This is true because in the wholesale industry, there is not the same type of customer service. Automation has accelerated the trend toward standardized packaging and shipping cases. It is felt that automation will succeed first in the food, drugs, and


variety wholesale business. This class (convenience) lends itself to automation, high turnover, and low margins. The break-even point for automation in these goods can be reached easily. At the retail level, automation is expected to come more slowly; it is not expected to revolutionize the retail marketing function. It is felt that the customers like to come face to face with the goods, examine, feel, and compare them. Of course, mail order retailing is not under this limitation.

The foregoing illustrations are only a few ways in which technological advances have been used by management. There is one other area in which recent automation has begun to lead to changes in the decision making process.

5. Information Technology

Raw material for decision making is information. The quality of the decision is determined by the quality of the information, that is, its timeliness, relevance, completeness, and precision. In thinking about information technology for decisions, consider two broad types of decisions; programmed ones and nonprogrammed ones. Programmed decisions are considered routine and repetitive, such as, routine

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73 Goeldner, op. cit., p. 55.

inventory replacement, standard orders, and routine pricing. The nonprogrammed decisions are those that are novel, complex, and need special treatment, such as adding or dropping a product or major research and development commitment.

Most of the increasing volume of applying automated decision making involves programmed decisions. New analytic techniques such as linear programming and dynamic programming can be used in processing ordering, batch, item scheduling in production, inventory, shipment and transportation scheduling. These all have a common characteristic of being quantifiable, making them susceptible to automation. Information process technology lends itself toward the structured programmed decision area and is likely to remain there for some time to come.75

Perhaps information technology will bring about a substantial transfer of responsibility for making programmed decisions from managers to machines—although middle management is more likely to be affected—those positions will not necessarily be destroyed. Rather, opportunities may be opened up for more effective performance for management. There is a possibility of bringing about a more imaginative and creative attack on problem identification and decision implementation through release from more repetitive decisions.

75Ibid., p. 72.
Anshen has stated that there may actually be an opportunity to enlarge the managerial job which could possibly be the most important contribution of information technology to management practice.

Since computerized information technology is relatively new, it is not certain how managerial decisions will be affected. Perhaps the change will most likely be in refining job content and not the function. It is not expected that there will be a significant change in the organization structure. There does seem to be a trend toward centralization. Transmitting information rapidly and processing mass data economically on centrally located computers makes possible the return to top management of some decision-making responsibilities heretofore delegated. This does not preclude returning output to lower level and field managers for administrative use.

Anshen has pointed out that, "A new production technology in the form of automated processing of materials will not lead to radically new forms of management organization."76 The reason for this is because the way in which work done on materials does not determine the decisive function of management. The organization structures and administrative processes which define management hierarchy, relationships, and performances are to a great extent a response to the decision making requirements and implementation.

76 Ibd., p. 66.
These are not a function of manufacturing technology. There are some organizational implications that should be considered, however.

6. Organizational Implications

In a recent survey of a sample from Fortune's list of 1958 top 500 organizations, an attempt was made to "... identify many of the human and organizational problems that will require careful planning if negative consequences are to be minimized or mitigated." Two hundred and ten check list replies were received and tabulated into a "Higher-Automated" and a "Lower-Automated" group (HA and LA).

Seventy-six per cent of the HA group and 75 per cent of the LA group reported that automation increased supervisory responsibility. It was reported that automation increases the interdependence of work among supervisors at the same level by 62 per cent of the HA group and 53 per cent of the LA group. Both groups agreed at the 76 per cent level that automation increased the ratio of supervisors to workers. The reason for this is that supervisors have to assume responsibility for a larger span of the line to keep machinery functioning properly. It was less certain as to whether automation tended to reduce the number of supervisory levels. Fifty-five per cent of the HA group felt that the

number of supervisory levels was not reduced; whereas, only 46 per cent of the LA group felt this way. Although no percentages were given, the report did state that a wide majority of executives polled felt there was no reduction in direct communication between workers and supervisors.

By a large majority, 94 per cent and 75 per cent respectively, the HA and LA groups reported that automation led to a greater ratio of indirect labor to the total plant labor force. These indirect workers consist mainly of technical specialists and maintenance personnel. At the 80 per cent and 81 per cent levels respectively, the HA and LA groups reported a reduction of the size of the work teams under automation. A majority of both groups also agreed that automation lead to increased isolation of the workers. This, of course, will probably present some psychological and sociological problems which will need careful study.

In summary, some tenative conclusions may be drawn from the survey. Automating the work at the lower levels of the organization indicates that the supervisor will have to make decisions at the work level quickly. Although supervising fewer workers, coordination with peers will become important for each supervisor. The supervisor may be called upon to supervise and coordinate the work of a maintenance staff. The supervisor should be able, with proper training, to do a better human relations job. Although there appears to be no reduction
of direct communication between supervisors and workers, "The substance of communication will probably be characterized less by direct work assignments and personal directions and more by a consultative, team approach geared to the objective of keeping the line moving." Since there will be present a greater number of maintenance personnel to give closer attention to processes, some problems of organization may result. Management should give careful considerations to lines of authority between the supervisors, operators, and technical men.

Technological innovations are becoming increasingly an integral part of many business operations. It will, perhaps, be a long time before many firms can adopt automation to any appreciable degree. Some large companies have written off their "experiments" and have gone back to older ways. One west coast firm went back to a standard calculating system for general accounting and billing. Results from this move have been money saved and getting work done faster. Management has to make decisions within the technological framework within which the firm operates. The profitability of moves to more automation has to be considered, as well as concomitant problems in labor relations and organizational changes.

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Ibid., p.

"Is the Computer Running Wild?" U. S. News and World Report, February 24, 1964, p. 82.
CHAPTER VII

CONTROLLABILITY OF ENVIRONMENTAL FACTORS

A. Controllability of External Factors

Among the environmental factors that have been considered, all but the in-plant environment and labor relations have been primarily external to the firm. Generally, these external factors have been considered noncontrollable. Lazer suggests that political forces, the economic climate, and the social and cultural forces cannot be controlled by management. According to this view, the best management can do is to appraise them intelligently.¹

In this section, the foregoing environmental factors, together with public attitude will be examined to determine whether they are noncontrollable, or partially controllable. The political forces are assumed to be the legal environment.

1. The Legal Environment

Some business laws come out of the changing fortunes (or misfortunes) of competitive groups. Dissatisfaction of many wholesalers, retail dealers, and some passively sympathizing manufacturers

led to the modification of existing laws in the form of the Robinson-Patman Act. In discussing retailers, the authors of Does Distribution Cost Too Much? said, "Those able to hold their own with powerful sellers, or to dictate to the less powerful, have taken their stand in favor of 'free competition.' The others have grouped together to attain sufficient political strength to secure the embodiment in law of their own conception of fair trade and competitive opportunity."\(^2\)

Retailers were responsible to a very large extent for resale-price maintenance laws. This is especially true in the drug field where price cutting was severe. In many cases, it was the "regular" retailer that was won over. According to Duncan and Phillips, the pressure exerted by the well-organized efforts of the retail druggists was the immediate cause of resale-price maintenance in the United States.\(^3\)

The Miller-Tydings Act did not specifically mention a non-signer's clause in relation to resale-price maintenance laws. At least one firm decided to test the law. Schwegmann Brothers, a large supermarket in New Orleans, Louisiana, sold some fair traded items below the minimum set by the manufacturer. The store contended it


\(^3\) Duncan and Phillips, *op. cit.*, p. 720.
had not signed an agreement to sell at the fair-traded price and was therefore not subject to the Miller-Tydings Act. The U. S. Supreme Court in 1951 ruled that the Miller-Tydings Act applied only to signers. Although the management of Schwegmann did not control the legal environment, by its action in defense, the legal environment in this area was modified.

In an intrastate commerce case, Schwegmann Brothers tested the Louisiana fair-trade laws. The result was that the Louisiana Supreme Court in Dr. G. H. Tichnor Antiseptic Company vs. Schwegmann Brothers Giant Super Markets (231 La. 51, 1956) ruled the state's fair-trade laws unconstitutional and void. Again, the defense of one firm resulted in the alteration of the legal environment.

During the 1920's, there was a reaction against the corporate chain stores. This attitude originated in the ranks of the independent retailers and wholesalers. Groups of independent businessmen, representing a militant minority, were able to impress legislators that laws were needed to protect the small businessman. Throughout the United States, many state legislatures began imposing "anti-chain-store taxes." It was reported that the sponsors of this type of legislation were interested in penalizing their rivals.4

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Duncan and Phillips state that the real objective of these laws is to protect the less efficient retailers and wholesalers from competition of the chains. Over the years since these special taxes were first levied on chain stores, approximately 28 states have enacted around 1,300 pieces of legislation against the chains in federal, state, and local laws. As of 1958, anti-chain store laws were either expired, repealed, or declared unconstitutional by 14 of the states.

Another type of special interest legislation deals with trading stamps. Some retailers argue that trading stamps are an unfair form of competition. In response to the urging of anti-stamp retailers, state legislatures have responded in different ways. Kansas and Wyoming passed laws prohibiting the issuance of trading stamps, while the state of Washington levied a prohibitive tax on retailers that issued stamps redeemable in merchandise.

Special taxes levied by states on foreign corporations have also been used to protect special interest groups. Sometimes these taxes have been crippling to foreign corporations and handicap interstate

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5 Duncan and Phillips, op. cit., p. 745.

6 Minnie B. Tracéy, The Present Status of the Chain Store Tax, with Special Reference to the Louisiana Law (Ruston, Louisiana: Louisiana Polytechnic Institution, Department of Business and Economic Research, April, 1958), pp. 4-5.

7 Duncan and Phillips, op. cit., p. 746.
manufacturers while protecting intrastate manufacturers. To the extent that business firms have been able to get these taxes levied, they have been able to alter the legal environment in their favor.

In labor law, the amendment of the Wagner Act through the Taft-Hartley Act strongly reflected the views of employer spokesmen who had as their objective to curb the power of organized labor.

It is seen that the political climate has been modified by special interest groups, and in some cases by the action of single firms, such as Schwegmann Brothers. As a general rule, most pressure comes from organization of trade or professional groups.

The American Fair Trade Council, supported by 2,000 fair trading manufacturers, has participated actively in legislative activities. The National Association of Retail Druggists finances and operates the Bureau of Education on Fair Trade. This association is backed by 37,000 members representing 1,000 retailers and wholesalers. This group lobbies for fair trade legislation.

Of the many lobbying business groups, perhaps the Chamber of Commerce and the National Association of Manufacturers (NAM) are the


9 Bloom and Northrup, op. cit., p. 758.

dominate ones. Each group seeks legislation favorable to the members of the group. The National Association of Manufacturers' lobbying activities brought a congressional investigation. The investigating committee described NAM as:

An organization having purposes and aspirations along industrial, selling, political, educative, legislative, and other lines, so vast and far reaching as to excite at once admiration and fear-admiration for the genius which conceived them, and fear for the ultimate effects which the successful accomplishments of all these ambitions might have in a government such as ours.\(^\text{11}\)

Thus, while the political climate is generally considered to be uncontrollable, evidence indicates that in some cases single firms and special interest groups can partially control, or at least modify the legal environment in terms favorable to them.

2. Public Attitude Factors

It is perhaps axiomatic that managers want the public attitude to be favorable toward their companies. This involves company image and reputation. Lazer mentions image and reputation as being controllable company factors in the determination of the internal business environment.\(^\text{12}\) Image and reputation as here considered are in the minds of both management and the public, and how the public feels


\(^\text{12}\)Lazer, Loc. cit.
about a company is an external factor. Management can perhaps control the image and reputation it wants to project to the public. It is not at all certain whether the public will view the firm in the same way as desired by management.

Since all firms do have a public relations; whether these relations are good, bad, or indifferent will depend upon how the public views the firm. As shown in Chapter IV, many firms actively seek to create a favorable impression upon the public. It seems apparent that while the image and reputation of a firm are not completely controllable, neither are they completely uncontrollable. Through action by management, public attitudes can be changed, thereby, modifying the environmental factors of public attitude.

3. Social and Cultural Factors

It has been stated that the social forces and cultural environment are noncontrollable, and at best, all management can do is to appraise them intelligently. On the surface this seems readily apparent; however, on closer examination of the factors involved, some of these factors may be partially controllable; or at least, these factors may be partly determined by business enterprises and managerial policies.

13Loc. cit.
For one thing, the production and distribution of goods and services to families whose services are employed in carrying out the former has an effect on the pattern and level of living. Much advertising has been done to educate and introduce consumers to new and better goods and services. Manager's decisions to innovate and utilize inventions of technology have been responsible, in part, for the rising standard of living. Wages and salaries paid to producers of goods and services are to an extent controllable by business firms. It is these payments that allow consumers to buy more and various goods and services that affect the cultural and social pattern of behavior.

In some cases, management may be able to directly modify or nullify some cultural influences. Webster's New Collegiate Dictionary defines culture as the act of development by education, discipline and training; also, "The enlightenment and refinement of taste acquired by intellectual and aesthetic training." In Chapter V it was discussed how a heating equipment company used the services of an anthropologist to remove the cultural block that prevented the company from entering the market area. Thus management, while perhaps not being able to control the social forces and cultural environment, can, through production of new products and educating the public, lead to a modification of the environmental framework.
4. The Economic Climate

The general economic environment, of which cyclical fluctuations are a part, is generally considered to be beyond the control of management. From Katona, above, it was noted that businessmen feel they can do nothing about the business trends themselves; rather, there are possible alternatives depending upon the expectation of the manager. This viewpoint is accepted here. There are other factors within the economic environment as discussed in Chapter VI for which management may have partial control. These are the competitive climate and technology.

Certain firms may essentially control prices of output if they are in oligopolistic industries and can be a price leader. At times, the leader may shift from one firm to another. With or without open collusion, the degree to which a firm can maintain its position, it will have some control over competition. Other firms may exercise some control of the competition situation by their proximity to raw materials and markets. If a firm is in a position to control or partially control the sources of supply, it can at least partially control competition. A firm may, through product differentiation, obtain some control over competition. If two or more firms produce and sell the same generic product such as aspirin, and if one firm can cause consumers to differentiate this company's product from its competitors


product, some latitude can be gained in setting a higher price for
the product.

Management can also have some control over technology. In
general, no control can be exercised over inventions. However, if
management has its own research department, some control can be
exercised over useful inventions as they are developed. Manage-
ment perhaps has more control over innovation; that is, putting
these inventions to work. Innovation is not the product of decision
making alone. The right technology must be sought to fit the particular
need. When this is done, and capital is available, management can
have a reasonable amount of control of the use of technology.

B. Controllability of Internal Factors

In discussing the controllability of the internal factors, the labor
relations environment as covered in Chapter III, as well as the social,
psychological, and cultural in-plant environment, will be considered
internal factors. While the union organizational structure is external
to the business enterprise, the decisions management has to make re-
garding labor relations cover the workers within the organization, both
union members and non-union members. Thus, it seems consistent to
consider these relations as internal factors.
1. Labor-Management Relations

Traditionally, management has held the view that it had the prerogative to hire, fire, transfer, promote, demote, establish wages it would pay the workers, and otherwise generally establish the working conditions for the employees. As organized labor gained in strength, and demanded and received recognition as bargaining agents for the employees, some employers established company unions in order to maintain control of the employer-employee relations. After company unions were outlawed, some firms preferred to deal with small independent unions (which in many cases were outgrowths of company unions).

The labor-relations environment may be said to consist of several factors: the philosophy of management, the attitude of the union itself, the government, and the public in general. Businesses have to some extent, been able to modify the environment by pressure on legislators, and public relations programs directed to the public. As between management and labor directly, it seems apparent that management cannot generally control the environmental factor of the union except as it can influence their union officers.

In some cases, such as unofficial union-management relations as discussed in Chapter III, management may be able to partially control the environment so long as there is a reciprocal agreement.
The philosophy of management towards organized labor, to a great extent, determines the labor-relations environment. This, it seems, can be controlled as witnessed by the various policies that management adopts in dealing with the union. Although management's philosophy perhaps will not control the environment, it can set the stage for a modification of that environment to the degree that policies are adopted expressing management's philosophy.

2. The Social, and Psychological Environment

The environment created by the social, and psychological factors were discussed in Chapter V in terms of needs and need satisfaction through social relationships, work arrangement, and pay. It seems evident that management cannot control this environment because it can neither control the needs or satisfy them. Management does have at its control some tools and methods whereby many of the needs can be satisfied.

Management can relate pay to the organizational structure. It can also change the formal structure. As more is learned about structures that are appropriate for certain types of activities, the organizational structure can be changed accordingly. In many cases the work flow can be changed to allow for social interaction, which can serve as a vehicle for fulfilling some social needs.

Thus, through pay, organizing work flow, changing the
organization structure, and small group work assignments, it is possible for management to cause the environment of social and psychological needs to be altered.
CHAPTER VIII

ENVIRONMENTAL FACTORS SUMMARIZED WITH CONCLUSIONS

A. General Summary of the Study

The business enterprise is considered to be a social organization. As such, it exists in an environment of relationships with people, whether they are employers, customers, a particular public, or the general public as represented by the various governments.

It is within this environmental framework that managers have to make decisions. Although there are innumerable environmental factors that have an effect on managerial decisions, only selected factors from the environments of government, labor-management relations, public attitude, social and cultural forces, and the economic climate, were considered.

1. Legal Environment Affects Decision Making

The legal environment has had various effects through the operation of common law, and various laws dealing with antitrust, restraint of trade, resale-price maintenance, and labor-management relations. The legal environment has changed from one in which there was little governmental regulation and interference prior to the Sherman Act of
1890, to an environment in which the government has become practically another partner in the operation of a business enterprise. Competition in legislative bodies and government has supplemented, and in some cases, supplanted competition in the market place. Some firms have turned over some of their marketing functions to the lobbyist and counsel for the company. The antitrust laws have set limitations on business combinations and mergers. Uncertainty exists as to the per cent of ownership needed, what the relevant market is, and the share of the market needed before a firm can be charged as tending to create a monopoly.

Thus a manager cannot be sure if he is violating some law. A particular act may be deemed illegal if there is a reasonable probability that the act may lessen competition in the future.

The businessman is also faced with uncertainty in many decisions regarding advertising, price concessions, and other practices unless he gets prior approval from the F.T.C. It seems apparent many firms have at some time violated some of the laws. Some managers have apparently learned to live with the laws while other managers flout them. Some violators may welcome a cease and desist order from the courts or the F.T.C. regarding price concessions because they did not want to grant them anyway. Manufacturers may find the Robinson-Patman Act useful in denying certain discounts and allowances they did not want to make in the first place.
Some firms ignored resale-price maintenance laws because they had not signed a resale price agreement. Testing some of these laws in court has led to further legislation clarifying and stipulating specific terms, while other laws were ruled unconstitutional.

With so many varied and complex laws, businessmen are turning more and more to their lawyers for help. The cost of maintaining a legal staff is prohibitive for some companies. Consequently, smaller firms may skimp on their legal protection. Since legal problems may be so complex that lower executives may not have a complete picture of legal implications of a decision, some firms are centralizing some decision making with the aid of the legal staff.

Although it is not possible to measure the total effect of the business laws, it is apparent that these various laws have affected managerial decision making in different ways.

Under the various labor laws with their amendments, management has come to realize labor's right to organize and be represented by a bargaining agent. No longer can management prevent a representation election from being held under the law if the workers desire one. Once the appropriate bargaining unit has been determined, and the representative chosen, management must bargain with that representative. Management can no longer legally interfere with union organization. In some cases, managements have tried to get around the requirements of the law only to have unfair labor practice charges served on them.
In some cases, the effects on decisions have been "post-decision" effects as the NLRB and the courts have overruled some managerial decisions. Section 7 of the Wagner Act is at the heart of labor's rights. That section states that employees shall have the right to self-organization, to form, join, or assist labor organizations, to bargain collectively through representatives of their own choosing, and to engage in concerned activities for the purpose of collective bargaining or other mutual aid or protection." Section 8 of the act was designed to guarantee the workers' rights outlined in Section 7. Under this section, employers must completely refrain from concerning themselves with the union activities of employees. Management can not legally threat, coerce, intimidate, or otherwise take action against an employee to force him to join or not to join a union or for any union activity. Neither can management legally reward or offer any type of reward, promotion, or any other favor to entice the employee either to join or refrain from joining a union.

Management sought and found some relief from some union demands and activities in the form of the Labor-Management Relations Act and the Labor-Management Reporting and Disclosure Act. Although the basic public policy has been set forth in the various labor-management laws and their interpretations, the full effect of these laws is still not certain.
2. **Impact of Labor-Management Relations is Felt by Management**

The labor-management relations environment aside from the laws has an impact on managerial decisions. The ability of labor unions to win recognition has been determined, in part, on the attitudes of management, employees, the community, and the power available for use.

Some employers have welcomed labor unions while others have adamantly opposed them. Depending upon the prevailing attitudes of the various groups and the use of power, employees may or may not organize into a labor union. Even though representative elections may be held and the bargaining agent determined, many unions do not have contracts with employers. The law states that management has to bargain with the representative; however, no law forces management and union to come to an agreement. There are labor-management relations in unionized and nonunionized plants, although this study concerns the former.

The environmental framework of labor-management relations affect management's bargaining decisions. This environment seems to have more influence on bargaining decisions than does the law. Different employers adopt various policies in dealing with the unions.

Some employers maintain a belligerent policy toward the unions and will make no concessions if they are at all avoidable; further, these employers may do all within their power to weaken the unions.
Unions are looked upon with distrust. Other employers may adopt the horse-trading approach. Following this approach, employers may recognize the unions as being inevitable, but conniving and unreliable, and will attempt to "outsmart" the union. Some employers may feel they are too weak to stand out against the unions and follow the pattern of industry leaders.

Unions may be recognized and dealt with on a straight business-like basis. This policy exhibits a more mature viewpoint of industrial relations and is usually attained only after several years of stable union relations. Some employers have formed into associations to strengthen their bargaining position. In some cases this seems to have worked satisfactorily.

The bargaining climate is influenced to some degree by arbitration provisions. Although there are relatively few contracts which call for arbitration of initial provisions of a contract, approximately 90 per cent call for arbitration of disputes at the end of the grievance procedure. Many issues not specifically provided for in a collective agreement have been subject to arbitration, and management may find that certain areas considered to be management prerogatives are arbitrable.

In some business enterprises, there exists unofficial union-management relations. These relations exist aside from the collective agreement. In such situations, management and the union reach some
sort of reciprocal agreement in which the parties exchange favors for the alleged benefit of each.

A policy of management-labor cooperation has been adopted by some managements and the unions representing their employees. This policy, from management's viewpoint, considers the labor union as an ally in improving efficiency in the firm. Actually, it is a two-way policy. The union is concerned with getting concessions for its members and with helping management provide the concessions. Both parties plan a cooperative program designed to increase productivity, efficiency, and teamwork, and also to attain greater security for the union.

These cooperative policies are not intended to supplant collective bargaining. Rather, they are regarded as experimental plans—adaptations of and extensions to collective bargaining. These plans are based on mutual trust and confidence and well-defined goals. A clear agreement and understanding is necessary on the subject matter and degree of cooperation if the plans are to be successful.

3. Public Attitude Concerns Management

Public attitude as an environmental factor is of concern to management. There are many facets of public attitude: this study is concerned with the attitude of the general public toward the firm in general and towards specific attitudinal factors—attitudes of customers and the environmental factor of race relations.
Many business firms are conscious of the fact that the ways in which the public at large, or any particular public, views the company can have far reaching effects as to the acceptance of a product, labor relations policy, or of the company itself. Consequently, many firms have engaged in a public relations effort to build and protect the company image, to erase doubts caused by rumors, and to gain acceptance of an idea or product.

Managers react to the influence of public attitude in various ways—depending upon how the managers interpret and assign values to the particular factors.

Among the attitudes of the various publics which a firm faces, perhaps none are felt as strongly and directly by the business managers as are the demands made by the consumers. During the 1920's, there appeared a widespread demand among consumers (women in particular) for standards and information about consumer goods. The general discontent on the part of consumers was crystallized by the book, Your Money's Worth, published in 1927.

Some business leaders felt that they were in a much better position to know the needs and desires of the consumers than were some of the consumer organization leaders. The consumer groups were attacked on many fronts by businessmen. Hostility was also aroused against consumer education. Some business leaders tried to nullify the efforts of the consumer movements through public relations campaigns.
At first, some businessmen regarded the consumer movement as a passing fad.

In time, however, businessmen came to recognize the consumer movement as one of the most important forces of the environment within which they had to operate. Some managers believed that it was the duty of retailers to make an effort to understand the needs and problems of the consumers. Many retailers welcomed the opportunity to work with consumer groups. Other managements began to realize that they had been missing a good bet by not cooperating with consumers earlier. It was this recognition of the attitudes of the consumers that, at least in part, seems to have led to the evolution of the marketing concept.

The marketing concept recognizes that marketing begins and ends with the consumer. Some firms realized this earlier than others. As the marketing concept became more widely accepted, changes began to occur in the marketing function. One of these changes is that corporate organization is being restructured. Most often this involves an expansion of personnel within the organization. Status for the marketing function is being enhanced with closer integration with other areas. There is no one organizational setup that fits all marketing concepts; however, firms applying the marketing concept to its greatest degree usually have more of the overall marketing functions under the marketing manager. Individuals with new backgrounds are being
employed. Although still few in number, staff psychologists, sociologists, statisticians, and cost analysts are joining business firms at an increasing rate.

Within the last two decades, the environment of race relations has been given more attention than formerly was given. In this study, consideration is centered around drives to gain more equal rights in employment and service in business enterprises.

The President's Committee on Equal Employment Opportunity, through Executive Order 10925, was set up in 1961, to seek nondiscrimination in employment opportunities for all minority groups. This order specifically, concern employment of personnel in firms contracting with the federal government. Many firms joined the "Plans for Progress" program, pledging to actively seek to insure equal opportunities in hiring, training, layoffs, and other aspects of employment. While some firms have kept their pledges, other have only paid lip-service to the pledge. In addition to the role played by the federal and state governments, minority pressure groups have been actively pushing for equal opportunities.

Some firms have felt the impact of such groups as they have experienced boycotts and sit-ins. As a result of such actions by the pressure groups, some employers have yielded and hired more Negroes.

In pressuring for equal rights to service in business enterprises, Negro organizations have also used the boycott and sit-ins. In some
states, no, or token integration has taken place. In other states, managers have opened restaurants, theaters, and other places of service to Negroes to a greater degree. Certainly, the environmental factors of race relation have had an impact on managerial decision making. The effects on decisions may not have come from a general prevailing public attitude, but rather from the attitudes of a specific public.

4. **Social and Cultural Influences is Felt by Management**

Managements' decisions are also affected by the social and cultural factors both within the plant and in the external environment. Within the plant, the environment is set, in part, by the attitudes of management, the physical layout and working conditions, and the psychological and social needs of the workers.

There seems to be an increasing awareness of the roles that psychological and social needs play, and the ways in which these needs can be met on the job. Traditionally, management's contribution to need-satisfaction of workers has been through pay. The money paid to workers can be used to meet the physical and physiological need-satisfactions. Some egoistic needs can also be met through pay. Pay, to some extent, serves as a status symbol in the community.

Pay that is sufficient to allow the individuals to live in certain neighborhoods, to drive certain cars, and to belong to the "right" clubs,
also serves to fulfill certain egoistic needs off the job. As important as these may be to individuals, there are some egoistic and social needs that can be met only on the job and through interrelationships with other people.

Management cannot provide the workers with friends, self-esteem, and respect by other workers. Conditions can be created, however, to serve as vehicles through which workers may seek satisfaction for some of their needs. Some managers have attempted to direct the workers' efforts to the company's good while providing the workers with some measure of need-satisfaction. Arrangement of work for small group performance has been one way in which management has tried to provide for worker need-satisfaction.

Job enlargement is another way by which management has tried to generate satisfaction on the job. In complex technology, work flow and organizational relationships tend to set the pattern of human relations which is observed. If an attempt is made to change the pattern of human relations without changing the forces that have created it, little progress can be made. Even though some of the environmental factors can not be changed, by understanding them, management may be better able to adjust the problems they create.

In certain cases, management has considered and adopted group practice. The best solution may not always be in adopting group
practice, but management can be alert for the possibility that behavior of groups may be for the benefit of the company.

In considering the external and cultural environment, management has consulted psychologists, social psychologists, sociologists, and anthropologists on specific problems. Management is concerned with the psychology of consumer behavior. Consumer motivation studies have been undertaken to determine what and why people buy. Marketing managers are aware of the need to understand consumer buying motives, to establish marketing strategies, and to set policies for pricing, promotion, and advertising.

Management has considered social groups as determinants of buying behavior. Various firms aim product, promotion, and price to different class and/or income levels. The study of class structure does not hold all the answers for marketing decisions as the structures are not static. Management has relied upon information supplied by the sociologist, but it is difficult to determine how much of an impact sociological contributions have had on marketing.

The role of the anthropologist is increasing in marketing decisions. Anthropologists have contributed to the solution of some marketing problems. Knowledge of specific cultural patterns, clothing and fashions, awareness of themes, and cultural taboos have aided marketers in serving particular groups. Up until the present time, relatively little reference has been made to the work of the social
scientist in solving business problems; however, increasing use is being made of the interdisciplinary approach as problems are becoming recognized as more social, rather than merely technical.

5. Economic Climate is Important for Decision Making

The effect of the economic environment on managerial decisions is considered in terms of general economic conditions, competitive factors, and technological factors.

The decisions made by managers in periods of general expansion or contractions depend on many factors. Businessmen generally view business cycles and trends as beyond their control. It seems apparent that businessmen have some definite notions about the company's approximate position in the business cycle. Whether or not these notions are correct, they generally affect a manager's decisions.

The decisions a manager makes will depend upon his expectations of the business outlook. Decisions will be further guided by the manager's expectation of the reaction of other businessmen and customers. In general, during periods of expansion of contraction, businessmen seem to prefer to increase or decrease volume, respectively. They seem to feel that price increases or decreases are risky. But what businessmen prefer to do varies with what they actually do in some cases. The depression of the late 1930's witnessed many price reductions. During the depression many firms went out of business; others
cut back production, lowered prices, and reduced the work force. Other firms increased advertising and brought out new products, some raised product quality and price, and others worked more closely with the customers to determine new uses for the seller's products. Clearly, management's decisions were affected in various ways.

Within the economic environment, competitive factors affect managerial decisions in various ways. Depending in part upon their market position, some managers may engage in competitive pricing (including price wars), follow the leader in pricing and output, engage in various forms of non-price competition, or even resort to collusion in fixing prices and market shares.

Managerial decisions may be affected by technological factors. Technical innovations may be used to reduce both the amount and kind of labor required to perform a job; it may be used to improve products or utilize by-products and waste materials. There are perhaps many technological developments available for use, but some firms cannot use them because they are not economically feasible. The type of technology available for particular purposes sets the limit to the type of structure appropriate for organization. As technology becomes more specialized, it appears that an organization's flexibility in shifting from one goal to another is reduced.

When automation is introduced, there is a possibility that workers
will be displaced. In many cases automation has been introduced without the loss of jobs. Workers are sometimes retrained and/or transferred to other jobs. Other firms have depended on normal attrition to cut down on the work force. Severance pay, early retirement, and contributions to union welfare funds have been used to mitigate the hardships caused by loss of jobs due to automation.

Management has begun to make use of newer technology. Electronic data processing systems, although barely sixteen years old in business operations, have made their entry into a variety of information and control areas. Information technology as a new area of advanced automation, is finding its way into the business organization, with the probable result of more centralized decision making.

Some organizational implications seem to be: an increase in supervisory responsibility, an increase in the interdependence of work among supervisors at a given level, and increase in the ratio of supervisors to workers, and, an increase in the ratio of indirect labor to the total plant force.

Technological innovations are becoming an integral part of many business operations. It will, perhaps, be a long time before many firms can adopt automation to any appreciable degree. Some large firms have experimented with advanced automated equipment only to go back to the older ways.
6. **Many Factors are Partially Controllable**

Some of the environmental factors generally deemed controllable may be only partially controllable. Image and reputation may only be partially controllable in that image and reputation may be projected to the public; however, the public may receive the image differently.

Other factors such as the political climate, and the social and cultural forces may be modified, if not controlled, by management action. The economic climate is conceded to be beyond management's control. While the environment of labor-management relations and the social and psychological are not considered to be directly controllable by management, the latter does control some of the factors that determine these environments.

Many of these environmental factors are interrelated and interdependent. Many of the factors beyond management's control change through time; others are changed by managerial decision; yet, the environment is constant. Managers base their decisions on their interpretation of the factors, and upon the values they assign to them. It is necessary for managers to recognize and become familiar with the environmental factors in order to make sounder decisions.

**B. General Conclusion of the Study**

The premise of this study stated that various environmental factors affect managerial decision making in different ways, and that
some of the factors generally deemed controllable or noncontrollable may be partially controllable. The writer concludes that from an analysis of the data presented, the premise is supported.
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Approved:

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