

investigated. When the reasons are found, appropriate administrative action should be taken. Reports measure the performances of all the heads of responsibility centers which are accumulated for presentation to successively higher levels of management. The president gets a report which identifies the results achieved by each department head who reports to him. As the plans for the year are carried out the emerging strengths and weaknesses can be traced to their sources.

Budgeting stimulates expense control because the head of each responsibility center knows what is expected of him. He is in the best position to take appropriate steps on a day to day basis to insure favorable results. Concern for expenses is communicated to each individual in the company. It becomes obvious that efficient operations are essential to improve budget performance. More effective use of everyone's time is seen to be directly related to the achievement of company goals.

The way management uses its budget system is important. If problems are not investigated and variances are not taken seriously the system is of little value. On the other hand, too much dependence on quantitative results and variances without looking for the underlying causes can lead to inappropriate action and create fear and mistrust of the system.

Blind faith in the system is not enough. As Charles R. Mortimer, General Foods Chairman, said at Columbia in 1965 while agreeing that there must be goals, plans, and organization for a large company to prosper, the essential ingredient is the "right kind of man." He added, "right decisions are what build profits and produce growth, and decisions can only be made by men."³

Perhaps the most compelling argument in favor of a system for controlling expenses through planning directed at specific profit goals, evaluating the resources needed to accomplish them, and reporting results which are identified with the responsibilities for achieving them is to consider the consequences of failing to do so.

DISCUSSION BY PAUL M. OTTESON

Mr. Foster's paper stresses the importance and necessity of a system of planning which will permit comparison and subsequent analysis of variations between actual results and planned results.

The lack of progress in the insurance industry concerning development of cost accounting and budget systems is attributed to two reasons:

³ *Business Week*—May 1, 1965.

(1) lack of appreciation of the value of results, and (2) the burden of statutory accounting requirements. It seems that there might be more valid and basic reasons for this lack of progress; multiple line operations, package policies, and variations in rate levels and exposure bases might create such obstructions to homogeneity that planned results based on meaningful standards are difficult to establish. The unique characteristics of insurance operations are not considered in the paper.

Examples of how budgeting paid off are from an airline and an automobile company. An example from an insurance company together with discussion as to how success was accomplished would be more convincing.

The basis for determining the standards of planned results agreed upon between the head of each responsibility center and the next higher echelon of management could well have been explored in greater depth. Establishment of these standards is the heart of the problem; of particular interest would be the relative emphasis given to negotiating and engineering.

The subject of expense analysis and control is difficult particularly in multiple line operations. The author's appraisal of the importance of the problem is correct and further studies in greater depth would be of great value to the Casualty Actuarial Society.

AUTHOR'S REVIEW OF DISCUSSION

I am exercising the option to comment on the review of my paper by Paul Otteson because it gives me another opportunity to interest the members of the Society in a subject which has long been neglected.

Mr. Otteson believes that the difficulty in establishing planned results based on meaningful standards is a more valid reason for the lack of progress in the insurance industry in the development of cost accounting and budget systems than the two reasons which I cited. He goes on to say that the establishment of the standards is the "heart" of the problem. Unfortunately I find myself placed in the position of having to explain a concept which is found in the paper written by William Dowling* entitled "Budgeting in Casualty Insurance Companies." My paper is concerned with the need for a system and not with the techniques which might be appropriate in the various areas of insurance company operations. I share with Mr. Otteson the thought that standards are difficult to establish while differing with him on the importance of this point as it relates to being a major reason

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