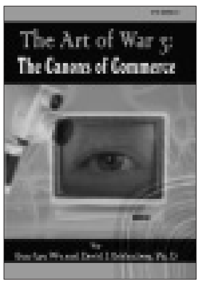
The Art of War 3: The Canons of Commerce

By Sun-Tzu Wu and David I. Goldenberg. 2002. Bloomington, IN: 1stBooks Library. Pp. 119. $10.50 paperback.



The genesis of this little book is the writings of Chinese General Sun-Tzu in 514 B.C. on the subject of strategic management as applied to war. David Goldenberg wrote the book in response to a challenge of Mr. Takashi Aizawa, president of the American subsidiary of Asahi Kasei Corporation of Japan, to reinterpret and update Sun-Tzu's classic from a modern commercial perspective. David Goldenberg is a corporate director, chairman of a consultancy, has held executive positions in publicly traded and small corporations, and is an adjunct professor at Farleigh Dickinson University. The book presents what Goldenberg believes Sun-Tsu most likely would have written today to guide modern business leaders if he both updated and generalized to all of commerce his seminal systematic treatment of strategic military issues from a cost/benefit perspective.

This book is relatively brief: seventy-five pages of tersely written text plus thirty-six pages of appendices. Goldenberg points out that Sun-Tzu stressed the importance of some unusual key steps but did not explain how to accomplish them. He therefore added appendices that apply the principles in the book to a critical analysis of three current topics: creating shareholder value, investing in real assets, and basic steps to make firms invulnerable.

The book is not an easy or quick read. It was altered to conform to a commercial metaphor instead of a military one. But almost every sentence either presents a new idea or briefly explains one, so that the short chapters must be read slowly and carefully. The author points out that commerce is the ultimate life-or-death issue for every country. War's drama and urgency may attract greater public attention, but business matters far more to the well-being of a country and its people.

Business has five basic parts: Moral governance (harmony of a firm's internal environment so that subordinates respond effectively and unhesitatingly), the external environment, the internal environment, leadership, and management practice. The succeeding chapters then consider planning, development strategy, resource allocation, leadership, weaknesses and strengths, investment, contingencies, operations, market traits, innovation, and intelligence. Goldenberg lists the criteria for peak organizational performance as innovativeness, continuous productivity gains, creation of productive and satisfying new jobs, and promoting overall social—not just private—prosperity. Properly operated, business is the most effective way to create economic—not mere personal—wealth and equitably distribute that wealth.

The first appendix is aimed to debunk the concept of shareholder value, which states that management is the stockholders' exclusive agent with the sole task of maximizing shareholders' economic wealth as measured by securities' prices. Goldenberg argues that shareholder value exploits three premises of the perfect competition model that are questionable: market value reflects economic value, profit maximization is each business' sole aim, and the market system efficiently processes information. The author contends that profits do not determine most of each firm's stock price and that multiplying an enterprise's stock price by the number of shares does not establish a firm's economic value—economic value refers to an item's usefulness to the final consumer and is not measured accurately by its money price in actual markets. Financial markets are not efficient enough to value firms or guide them to sustained success. Many court decisions support the idea that nonfinancial performance has priority over purely financial criteria; and management is not under any duty to maximize shareholder value in the short term, even in the context of takeover.

The second appendix contrasts investing in real assets vs. investing in financial assets. Nonfinancial assets have long periods of illiquidity and cannot be measured effectively over time in money terms. Moreover, goods and services in early growth stages defy analysis in terms of efficient frontiers and indifference curves. The author offers instead some real-asset investment basics. The first requires each business unit to submit a package of real-asset proposals in a common format. The first proposal in the package details the resources needed to keep the entity alive in its current form. The last proposal exhausts the business unit's confidence to handle additional real-asset investment or the lack of other worthy opportunities. Each proposal has two lists attached that describe the risks and benefits of each proposal. Senior management then evaluates the proposals, determining whether each unit, if given exactly what is requested, can stay alive or whether a resource surplus or shortage exists. Senior management then has the task of allocating scarce resources or revising the lists of proposals to review those that did not make the first cut. In any event, capital budgeting is not the usual annual affair, because investing in real assets absorbs and releases resources unevenly, so that a pool of appropriate opportunities should be available to choose from as resources become available.

The third appendix discusses how to make a business invulnerable. Employee training is critical, as is the free flow of information—from staff to line and back—that encourages an information channel for both good and bad news. An additional suggestion is to have an experienced senior executive in or near early retirement as a gatekeeper to control the board of directors' agenda, to have some veto power to keep disastrous items off the directors' agenda, and to have an open door to line and staff as an information channel. The final suggestion is not to indulge in calling attention to your employer's weaknesses in interviews, articles, formal presentations, and casual conversation.

This book, if read carefully, can be a gold mine of ideas and suggestions to the business economist who has either a staff or line position and is looking for additional perspectives to become a more useful employee. It takes constant reminding that the book was written more than 2,500 years ago and is not a recent textbook in corporate management.

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Handbook of Investment Research—Economic and Financial Indicators as Market Movers

By Conrad Mattern. 2002. Hampshire and New York, NY: Palgrave Macmillan. Pp. 464. $80.00 hardcover.

This book provides a comprehensive overview and detailed interpretation of economic indicators in both the United States and the Euro Zone. In addition to being a complete reference volume, the book has two particularly appealing features. First, it offers a unified treatment of Euro Zone data and in the process describes many of the problems that still limit their usefulness. Second, it not only describes the data, but also evaluates them from the perspective of a business economist who has spend many years interpreting economic data releases and their effect on financial markets.

Especially for analysts used to the high quality and reliability of U.S. statistics, interpreting Euro Zone data poses new challenges. First, the Euro Zone is a rather young entity and therefore only limited historical evidence is available. Data series were either not collected at the national level prior to the creation of the Euro Zone or the computation of historical data based on national sources is complicated by a lack of harmonization. Second, harmonization of national statistics still has a long way to go. While considerable progress has been made over the past years, significant differences in national methods remain. As an example, industrial production data in France are unavailable during the summer holidays: no data are published in July and instead an average value for July and August is released. Also, the joint existence of several methods to seasonally adjust data remains a source of confusion. For example, in Germany there is still disagreement between the national statistics office and the central bank about the best way to seasonally adjust industrial production data. Third, release dates at the national level are still not fully standardized. While the exact release times for most indicators are announced in advance, a few series still do not have set publication schedules.

The fact that Euro Zone data are published mainly on the basis of previously released national data has important practical implications. Due to the—at times substantial—publication lag between national and Euro Zone data, financial market participants focus almost exclusively on the national releases. Knowledge of the data in the five largest countries—France, Germany, Italy, Netherlands and Spain—allows an accurate estimate of the aggregate in the Euro Zone.

The second contribution of Mattern is his thorough assessment of the indicators' relevance. All indicators are ranked from A to E, with A representing the greatest influence on financial markets. The ranking was derived from two sources. First, event studies on the relationship between data releases and financial market reactions and second, a survey of business economists. Mattern identifies three A rated indicators, which all come from the United States: the labor market report, producer prices, and consumer prices. About a dozen indicators deserve a B rating according to Mattern. They are evenly split between the United States and the Euro Zone and include such variables as national accounts, industrial production, and the leading industry surveys.

In addition, the author provides detailed observations about the use of the indicators in the forecasting process. In a notes section for each indicator, he takes up issues such as appropriate data transformations (e.g., the use of moving averages to smooth out volatile series), correlation coefficients and historical lag/lead relationships among different series, or the causes and likely size of revisions.

The book opens with a short but useful general discussion about the construction of economic indicators. The section covers issues such as seasonal adjustment, data revisions, and creation of index numbers or construction of deflators. Part II on the United States and part III on the Euro Zone constitute the bulk of the book.

The indicators for both the United States and the Euro Zone are organized by categories. These are (1) overall activity, including leading economic indicators; (2) company surveys; (3) labor market indicators;(4) consumer indicators; (5) investment indicators; (6) international transaction indicators; (7) inflation figures; and (8) monetary aggregates.

For each indicator, eight points are covered:

1. *Data source.* Gives the publishing organization, including its Internet address. Additional useful details for obtaining the data are also given.
2. *Impact on financial markets.* Provides a ranking of the indicators from A to E, with A indicating the greatest influence on financial markets.
3. *Description of the indicator.* Gives information about the indicator including sub-categories and (especially for Europe) regional coverage.
4. *Publication date and data revisions.* Provides the publication time and the publication lag. Also includes details about revisions.
5. *Seasonal adjustments.* Spells out whether the data are seasonally adjusted and which method is used.
6. *Notes.* Provides hints about the use of the series in economic analysis.
7. *Key datastream mnemonics.* Gives the mnemonics not only for the headline figures, but for all subcategories as well. About one hundred pages in total are devoted to these lists.
8. *Literature.* Provides suggestions for further readings, such as articles on methodology.

While the author does a fine job at providing content, the publishers are less careful in presenting it. Unfortunately, they offer a rather poor translation of the book, which originally appeared in German. At times, considerable patience and a vivid imagination are required to get from the words to the underlying economics. The sentence "…the resulting values produced differ so greatly that diverging values can result." (page 246) illustrates the problem. A second edition would benefit greatly from more stringent editorial oversight, so that the ideas contained in the book are expressed with the clarity they deserve.

Despite this shortcoming, the book is a useful and thorough collection of facts, interpretations and recommendations. It fully meets the self-imposed goal of providing people who deal with fundamental data with a useful, handy guide that makes their work a bit easier.

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