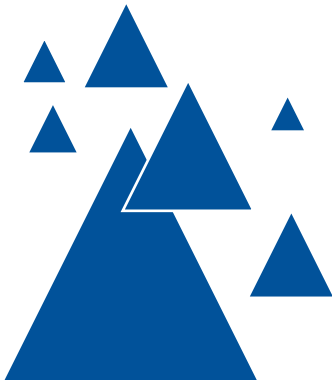


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# Interview with Norman G. Lancaster

by Michael Mumford



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**NORMAN G. LANCASTER**  
**INTERVIEWED BY**  
**MICHAEL MUMFORD**

**30TH MAY 1979 AT HIS HOME IN CHELTENHAM**

**By way of biographical background, you qualified in Birmingham?**

Birmingham, in 1925 to 1930.

**With a smaller firm?**

Howard Smith. It turned out to be one of the biggest firms in Birmingham, and it is now part of Price Waterhouse. It was the bottom of the slump and to get articles was terribly difficult. After that, I wanted to go to London; that was the great thing in those days, and I wanted to go only to Deloitte or Price Waterhouse - I wouldn't go to anyone else, they were the best. And it was terribly difficult to get a job - there were three million people unemployed. And I finally got the offer of a job in New York with Deloitte. And I accepted this. I went up and saw them because they asked me to go and see them and they offered me this job. They said they wanted me to stay in London for three months first, to see how they did things and all that, and then I would go to New York.

At the end of three months I went to see the partner and said: 'what about New York?' He said: 'my dear fellow, haven't you read the papers? You know 29 fellows committed suicide in Wall Street yesterday, and the slump is really very bad indeed. There's nothing in New York - it's all cancelled

as far as we're concerned, but stay on in London', which of course is really what I wanted to do more than anything, but thought it impossible.

You see in those days, in those days you weren't paid to be an articled clerk. If you wanted to be an articled clerk in Deloitte's you would pay them 500 guineas for the privilege of working there for five years for nothing, so it was difficult to get Deloitte's name behind you.

**But you were a newly qualified man at that stage?**

I was qualified, yes. I was third in the intermediate exam, which gave me a little bit of something. I worked for them for four years.

**Why accountancy in the first place, was your father in accounting?**

No. I did mathematics. I went to Rossall [School] and I did mathematics and physics, which was my thing. And when it came to wanting a job my father said: 'what are you going to do?' I hadn't the faintest idea. He said 'why not be an accountant if you are fond of mathematics?' And I said, 'well, yes'. And he said, 'I've got a friend', and his friend took me. But of course accountancy has nothing whatever to do with mathematics - it was a great disappointment to me. My first job in the office was to add up a day-book which must have been a foot deep, so I don't know how many figures there were in the thing, and I spent three weeks adding up. Whereas doing mathematics - I mean I wasn't doing them to a high level: I was doing them to A level - you rather despised the working out of something; what you were in favour of was when you could not have worked something out. And then you suddenly find yourself adding for three weeks on end. So it was a bit of a comedown really.

Then I had enormous luck, about half way through my articles, in being entrusted with the affairs of this growing company, Fisher & Ludlow when I became involved not in costing - it wasn't really costing - but in preparing monthly account. I did prepare the monthly accounts and all that sort

of thing. They were quite an up and coming engineering company, and that's really when my interest was quite obviously in that field. I went to Deloitte's, as I said. There was no question of going to university in my family, because we hadn't got the money. But I thought living in London was like a bit of a university on its own. And joining these companies like Deloitte's was a great experience. I mean, you met boys from Scotland and so on, and Africa - all over the place. It was very much a mixing place.

### **And there you were on the audit side?**

Oh yes, audits. There was this P&O investigation, but I didn't play a big part in that. In fact I didn't play a big part in anything. Deloitte's London staff, when I joined them, had been about 300 or 400, and people used to leave at the rate of about 200 a year. So it was a terrific jumping off place. You had got the name; you went up and got the best jobs in industry, all round the world. In the first three years I was there I don't think - I don't want to exaggerate - but I don't think a single person of any importance left. There were no jobs to go to. None! My plan was to work for Deloitte's for two years, get the name behind me and leave. I didn't reckon I was good enough intellectually to stand up to the competition to become a partner. And you didn't become a partner before the age of 45. And I thought, well, if you don't become a partner you haven't kind of lost out even if you become a managing clerk. So I thought I would not back myself to be a partner in such an excellent place.

Go there for two years, get the name behind you and get a job. No jobs to go for. I got married at the end of three years. And I saw an advertisement in the paper one day in *The Times*: a chap wanted an accountant. I applied, but never thought anymore about it. Then I had a letter from the Calico Printers Association in Manchester, which was a splendid organisation in the textile trade, very large - doing a terrific export trade. And - blow me, the way in which you were selected in those days! First they had an exam; I had to take an exam in London. And then the finance director and the

chief accountant interviewed the people who had done reasonably well, in London. And then I had to go to Manchester at the end of the day, and there were 540 applicants.

**For one post?**

For one post. The job was personal assistant to the chief accountant.

**Good gracious.**

I got it. I know why I got it. I think I asked for less money than anybody else [laugh]. But it was a great experience. I have been very lucky in my experience; it was a great international company. And then when the credit control department - you see they were exporting all over the place - going in there, there were six fellows in there, all using dictating equipment. At any moment when I went in the office they were dictating in four different languages, which impressed me. It was for credit control around the world. They were 'Number 4' contract of Hollerith [a major business equipment firm], which of course was advanced equipment in those days. It was a great experience.

I'd only been there for six months when Fisher & Ludlow asked me to return to Birmingham. Calico Printers insisted on me working for another six months. And so then I went to Birmingham and I really started.

**What sort of work were you doing with Calico Printers?**

Well, I was as I said personal assistant to the chief accountant. A rather unique job - it wasn't 'assistant accountant': there wasn't an assistant accountant. The chief accountant was a very important fellow and I thought terribly good. And one of the things was that I worked in his room. This was all worked out by them - they had worked everything out. I had a desk in the corner and he had a huge room and a big desk in the

middle. And his instructions to me were to listen to everything that was said in his office, everyone that came in. I was to listen, so that he hadn't had to repeat anything to me, you see. And then you were a sort of back up of him in every way. It was a very nice job, very interesting.

**It might have been a little frustrating not having any particular terms of reference?**

Well, for the time I was there it was quite all right. Incidentally this man Hugo, who I thought was quite brilliant - a Yorkshireman - he died a few months after I left, and Calico Printers then sent for me and asked me to be chief accountant. It would have been quite a thing, but I'd already come back to Birmingham. To become chief accountant would have been precipitous, wouldn't it? It was rather extraordinary.

Well that was that. And then I had a very full life. This standard costing was the thing that really gripped me - the whole process of working it out, and I think we worked it out; it was as good and slick a thing as we could possibly have done. I had some very, very good chaps to work with; these weren't accountants - these were fellows in the Wages Office, and a cost accountant who was a young man. We worked these ideas out between us and they worked like a charm. And then, really even before the war came, I really started on the management side of business, the marketing side which has always appealed to me. I handled serious accounts like Lockhead, Morris Motors I had a lot to do with, and Standard Motors I had a lot to do with. I was made a joint managing director, one of three. I was, you know, the sort of fellow who got a deal with Morris Motors when we weren't delivering on time and they would ring up; and [I would be] quoting a price. And this has really been what has interested me in business since then.

**What year did you join them; 1936?**

I joined Fisher & Ludlow in 1934, and I worked for Fisher & Ludlow until 1944. During the war I was called up. I was in a horse mounted unit in the territorial army - or had been. And when they mechanised us in 1931, I came out: I was only in for the horses - free riding: marvellous. And when we were mechanised, I was in the Royal Signals. I knew nothing about Royal Signals but I loved the horse side. And then to my astonishment on the year, the day before war was declared, I was called up. Some officer failed his medical and the CO called me up as a reserve you see. And I went dressed as a horse mounted officer. And then my company, Fisher & Ludlow, insisted they were doing all sorts of important munitions work, before the war as part of the rearmament programme, and they insisted on my being returned. After joining what I thought was the key priority division in the British Army, I was returned after ten weeks. And then you feel awfully guilty: you've left your brother officers. I thought what on earth could I do? And then I thought of an idea. Most of these things I don't think of myself; you hear something somewhere, and you put two and two together, actually.

They were short of 25-pounder brass cartridge cases, and they had started to build this new factory on the outskirts of Birmingham. I went to this site and asked was it true they were short of 25-pounders, and they said 'terribly short: we're building three factories'. And I said: 'well, I know a factory that's just started foundations for putting up a steel works that sounds to me right for size'. They said, 'yes: absolutely right for size'. And they entrusted us, Fisher & Ludlow, with managing this as a Royal Ordnance factory, on a management basis. I was the chap in charge, working at Fisher & Ludlow but one of one's jobs was to look after this counterfeit client. Then I dealt with the aircraft side. We made the wings for Lancaster bombers and the engines themselves for Halifax bombers.

I was growing away all the time from what I had been, in finance and management accounting. And then when it came towards the end of the war, chaps who had been my assistants were all promoted. I couldn't go

back - I couldn't go back and put them out of a job; I didn't want to. And I was asked to join my old firm of accountants as a partner. I went in for five years, and I enjoyed that.

### **In 1944?**

In 1944. I went in; I was a partner and I found it very interesting. What I liked was the human side. I didn't really like the work as work, the tax work - I always thought it sterile. And then one of our clients, Tube Investments - a very big outfit, asked me to join them, and I jointed them as joint assisting managing director. And I went there. A chap called Steadford was running Tube Investments - rather a brilliant fellow in many ways. I worked there for five years. I fell out with Steadford: I didn't agree with a number of things, and he didn't like that. And so then, immediately I left Tube Investments, Lucas asked me to be a director. And I was asked to be the managing director of a confectionery company; that's when I worked for Marks & Spencer's suppliers which was very interesting. I was there for five years.

### **So you joined Lucas's?**

I joined, when I left Tube Investments in 1954, I was immediately asked to be a director - a non-executive director.

### **A non-executive director, I see.**

And simultaneously I was asked to manage - to be the managing director - of this confectionery firm. They employed 500; it was quite a good little outfit. And that really in my career was quite wonderful. I learnt a lot in Tube Investments about a big group, how it worked. And incidentally in my own personal mind, I learned how a lot of things shouldn't be done in my opinion. It wasn't Tube Investments; it wasn't Steadford. I thought they were run very much as a dictatorship, with a lack of trust between

men and all the things I don't agree with. However, in this confectionery business I learnt something I'd never done before in my life, that's selling a product. I'd always sold it technically to the Standard Motor Company, or Lockheed on brakes making these brake-shoes or clutch backing plates - all these things; sort of semi-technical selling. But in the confectionery industry, of course, one was selling to the public and it was my idea to sell as much as possible to Marks & Spencer - I thought so highly of them - and I learnt a lot.

And then I really got my chance, you see. I was chairman, non-executive, of Wolseley Hughes, which started as two separate companies, but I was chairman. And then more people started to join. And my colleagues said: 'look, we think that the time has come to have a whole-time executive'. They said: 'you are OK as chairman' and that sort of thing. 'But we want a whole-time executive now; we think it is necessary, and we think you're the chap, you see, if you'll do it: if not, we still think [you should] carry on chairman and do something else'. That really suited me down to the ground. That really gave me my chance in life. I had had a lot of training one way and another.

### **This invitation to join as full-time chairman occurred in ...?**

In 1963, Wolseley Hughes having formed two companies and coming together under me as non-executive chairman in 1958. And then, I had joined Martin's Bank, and I'd been asked as chairman of Tomkinson's Carpet; it was very interesting. I was chairman until a year or two ago, and my son has now followed me there. It's a bit of a compliment, really. And then in Lucas, I was a director of Lucas for 24 years, and I was deputy chairman and vice chairman for the last nine years. And I was vice chairman to three most outstanding chairmen - Sir Bertram Wearing; Sir Kenneth Cawley, chairman of the governing body at St Bees School; and Sir Bernard Scott, the most brilliant of the lot, who is chairman now.

So I was vice chairman to each of these three, my job really being sort of head of the non-executive directors: lords, and wealthy fellows, and able fellows and one thing and another; it was very interesting. Wonderful.

**You believe in the value of non-executive directors?**

I believe - my own personal thing is I think they do a good job. I think they mustn't be dominant. In other words in Lucas, when I first joined Lucas, there was two or three executives on the board, a board of 14. The remainder were non-executives - millionaires: when I say millionaires, I mean a number of them were, wearing the old Etonian tie and all that sort of thing - rather superior people. And I thought it all wrong. I thought the executives were not exactly treated like office boys, but they never seemed to be on the same level as these fellows who were smoking their cigars and coming in Bentleys.

**Perhaps like 'gentlemen and players'.**

Exactly. I made it my life's work because in Wolseley Hughes we were entirely executives: we were together - we were workers and all thinking the same. And I'm pleased to say that throughout my 24 years with Lucas they ended up two-thirds executives on the board and one-third non-executive, the non-executive being less dominant - being there to express views and things, but in no way to boss. Not that they bossed previously, but they somehow seemed to be treated as different people. In Wolseley Hughes we got on splendidly without any non-executives, because we were indeed ourselves a cross section of business and we were a cross-fertilisation anyway. But I think possibly one or two in Wolseley Hughes would have been good for some purposes - such as to help choosing the next chairman for instance, that sort of thing. I'm not against non-executives. I'm in favour of them, but they mustn't be dominant I don't think.

And another thing I feel very strongly is they must themselves be executively employed in some other capacity. In other words, I don't know, I am retired and I continue to do it, non-executive and one or two things. I think you go off very quickly - not exactly you 'go off': you don't go off mentally, but you don't know what the current thinking is on the press code, and personnel, and you've got to be in the fight. And then you can cross-fertilise and be helpful to other companies and they can help you. But immediately you're out, you're merely echoing from the past.

So I think I would like executives to be like a merchant banker, a practical merchant banker in the market, so to speak. University types, you see, in the game - thinking; those sort of people, not retired.

**Now to go back and pick up a number of these points. One thing that interests me very much indeed is the standard costing with Fisher & Ludlow, way back in the 1930s. As far as you remember, where did the ideas come from which you were applying there? You see you mentioned earlier on somebody in another firm in America?**

Yes. As for the idea, I was chief accountant at Fisher & Ludlow, and I had lunch with the chief accountant at Press Steel Company. It was an American-formed company I think, to serve Morris Motors. It was in Oxford. And I was talking to him about costing, and he was talking to me about costing - and certainly the idea came from him. He said to me something - I don't know if he called it 'standard costing' - as to this way of looking at things, you see. I don't know whether he said they would do it, or whether it was an American idea he'd heard of; but it clicked in my mind. I thought it was the answer: first, we'd got to do something because we were doing no good at all with 33,000 people. And we had done nothing useful whatever since they had been there, which was a few years back.

Now what we did at Fisher & Ludlow - everything we made, we estimated for in advance. It was more than estimating; they were technical estimators. And they would say the job is to make that: and it might well be to make that - it might be the backing-plate for a clutch, you see. A technical man would look at it. He would first have a specification and drawings and all that stuff. And then he would say what the exact operations are to produce it. How you work on heavy gauge or mild steel, with specifications laid out, and how the first thing is a blanking operation, then a drawing operation, then a trimming operation and then this and this and this. And he put the machine times down, you see, for these operations, and he put the estimated tool cost for each operation. And I thought - blow me, we'd got the basis for standard costing straight away, in our estimates, because we're quoting for everything: everything we make.

The Ford Motor Company, they would want something, and we had the cost. We took everything except the initial idea - that there was another way of costing, starting at the end and working back instead of at the beginning and working forward - everything else from then on was our own [idea]. We used - and this was my favourite - we used our original estimates as what you can call 'true standards'. In other words, we assumed that they were right. And the funny thing about standard costing is that it is self proving, because if they're right [i.e. the standard costs] it comes out right. In other words, the stock comes out right every year at the year-end; the biggest stock variance we had was trivial - £15,000 or £50,000 or something, quite small in the scale of the operation. In other words, our operators were proving themselves.

While this was going on, in the wages office they were building up - which again was my idea, I'll show you - building up the specifications in detail of everything that was made on the labour side. [Fetches a binder of cost records.] We did this with the Kalamazoo Company. This is how I record music, which I'm very fond of. You see you have a strip, a single strip; here's Bartok's music - Piano Concerto number 3. Now, if I add something, all

I've got to do is move all these down and another strip goes in here. Now this is what we worked out for the Kalamazoo Company - this is going back 40 years, about, with this kind of thing. And this is how we recorded all our piecework prices. And the piecework price wasn't a price - because we worked in minutes and not money, you see, so it was standard times. So we were building up labour times and machine times.

**And you had a page per item?**

Well, if there were six operations, that would come in here. Then there would be another for all the parts making up, say, the scuttle for a motor car, or the sub assembly. Then there'd be the self-assembly operations. Then all the sub assemblies would be summarised on the main assembly menu, and that was the motor car, you see.

So if an operation was added or dropped or altered the strip went in, the subtotal altered, the main total altered. It kept up to date. And there were the machine times. And we worked out, then, all the running costs per hour of all the machine times, you see - standard times. And then the material side was handled in the buying office and the cost office; the only real costing was the material costs, which they picked up from the specifications from the buying office. And they put together the labour costs and the machine costs from the wages office. So nothing was duplicated.

In the wages office they needed - it was their bible - piece work times. When you've got the times, you see you've got everything. So we ended up with a standard costing system - really quite simple.

**What about the Achilles heel of a standard costing system, the overhead allocation?**

Well, the overhead allocation - we took a lot of trouble with that, and of course that was done in the cost office. And a good bit of the basic work had been done before we went in for standard costing. In other words, we'd got un-absorption rates and machine-down times of machines costing the earth, you see, working alongside a man working with a file. So obviously there's an enormous difference in cost. And this had been done, or was in the course of being done. We merely applied all these rates, and it either came out right in terms of our own overhead recovery or not - and we did come pretty well right. But we took care. We altered the rates when necessary.

Going alongside all this, dealing with materials first, we ended up with an order set for everything. If the job was to make 10,000 of something or other, your orders would be split up either in 1,000 lots or 10,000 lots according to the speed of the machinery concerned. The complete order set would go down to the workers, you see, together with material specifications for all the materials required. And this was the only specification that they had. They weren't allowed to go and help themselves to materials: they delivered like a cheque to a banker. They were delivered, all of them, the materials they required to start the blanking operation, sufficient to make 10,000. There might be 5% allowance for scrap, so it would be 10,000 plus 5%. And that was the material issue.

Now if more than the normal scrap occurs, then the foreman concern has got to write out, on pink paper instead of white, the excess material movement. The very fact that it is on pink paper means that everyone's upset and everyone's alerted. And then, of course, the cost office is then sorting and analysing these things by jobs, by causes, by any other thing they're interested in. It is so easy to do: instead of a 100% of the operations, it is 5% or 10% that is being looked at.

**It's the exceptions, yes.**

And it dealt also with wages. You see, all rectification operations were all done on single job tickets that were always standard colours for standard operation, with the price in in advance. No one could vary it, you see. And the machine times all laid out. It's all so easy; it might sound complicated but it's all so easy. You know all these standard things go down into the works, they start production, then of course something goes wrong, something is going to be put right. Then extra tickets have to be produced, rectification operations, and these were all in a different colour. So into the wages office they come and they're analysed, again by cause but partly by job, by any other reason. And then everyone's work, every operation - you see a man might do ten jobs during the week on these individual job cards - of course, they were all then priced out in standard minutes: the man's rate, the cost, adding up to his wages. Then his wages divided by real time, and you get the man's bonus element, and all these are examined all the time.

**Now were those bonus schemes in operation before you used this system?**

What they had in operation was piece work, in terms of money. That means a man was given say 2 shillings for doing a 100. We changed that to time, the man's rate. Of course there wasn't the lengthy process of negotiation with the unions in those days. It was easy to agree a sensible thing if it was sensible. No-one's money was going to be altered, but they were going to be worked out in terms of time by rate to give the man's wages, instead of quantity by rate giving the man's wages. But, of course, it's much better, because you're thinking in time. So all the production planning links up with costing and everything. It really was very good. And down in the works, you see, in the various departments of the works, the cards coming with the orders to make a thing, and then split up by machine types and all going in racks - anyone can tell, they don't all have shop cards. All the departments will tell you within minutes the time loading ahead of the presses, for instance.

**Yes, yes. You mentioned earlier on that you knew Lawrence Robson. Was that at this plant?**

I knew Lawrence Robson at the latter stages of the war. There was considerable feeling amongst men like de Paula, Lawrence Robson, myself and there must be about three or four others that costing really wasn't being done very well; it wasn't as good as it ought to have been, and something ought to be done about it. And I was put on the Cost Accounting Sub Committee of the Taxation and Financial Relations Committee of the Institute [the Institute of Chartered Accountants in England and Wales]. I think it was a standing Committee of the Council.

**It was set up in 1942, the T&FR, yes.**

Now, when the Costing Accounting Sub Committee was set up I don't know; it would be towards the end of the war. [Indicating Howitt's history of the ICAEW] It would be in this book somewhere. It was when Shepherd ... 1947. I think it started work before that. [Reading] These were the chaps: there's de Paula and that lot.

**You are the second person to mention Shepherd's name to me in a week, the other being Jack Clayton.**

Clayton was the man; he is attributed with producing 'Pay-as-you-earn' [taxation], isn't he?

**Yes, that's right - he is.**

We were all enthusiastic. We weren't all enthusiastic cost accountants, but there were a number of enthusiastic cost accountants amongst this lot. And Robson was of course a very bright fellow, and he was professionally in the thing; I was industrially in the thing. We all felt that something ought to be done so let's get on with it.

[Reading] Basil Smallpeice was there.

Basil Smallpeice, yes.

**Now Mr Barrow; I know him by name, I know nothing about him at all. But Clayton I do know.**

The really active people, as far as I was concerned, were de Paula, Smallpeice, Newton was a Birmingham chap but he was a professional man, Robson was very keen, this chap Thynne of British United Shoe was very good, Weeks - dear old Basil was very good and yet he again was a professional. There is always a slight difference between the professionals; they're professional men - they're interested in the thing but in not quite the same way as an industrial man. And Weeks and Thynne - and I would put Robson; although he was professional, he was really extremely good and very keen.

**Were you involved at all in the moves to encourage the Institute to co-op non-practising members onto Council?**

Oh, in a vague sort of way. One of my partners in Howard Smith Thompson, which was the original firm I was trained in and I was a partner in, he was a very keen Institute man; he became President. I think anyone from Birmingham was keen on non-practising men joining, I don't know when it came off.

[With Howitt's history] **It will be in here somewhere.**

At a later stage, there was a Training Committee when Ted Parker of Price Waterhouse was the President [of the ICAEW]. I was on the Training Committee that came to the conclusion that, basically, our methods of training were right. You know there was a big school of thought that we all ought to go to universities, and things like that. We came down on

the Institute's way which was apprenticeship, including class as well as theoretical training.

Yes, here we are. At the Annual Meeting in 1950 the members approved a proposal that out of 45 seats [on Council] up to five should normally be occupied by members 'not in practice'. This was passed in 1950, so it must have been mooted by 1949.

Yes, and probably the feeling had been going on for some years. War has always produced a foment of thought, and I think there was a foment of thought going on there.

There we are. Do you remember we mentioned Lever Brothers earlier on [over lunch]: there's our friend [P. M.] Rees.

Yes. Well, when you come to think of it, probably there was a sub committee really doing this, and they were more or less the chaps I've mentioned.

Interesting, that. And this was well over ten years after you've been instituting standard costing in Fisher & Ludlow.

Well, I've been instituting standard costing - it must have been in 1935/1936. And of course they hadn't got round to that. You see, the Institute produced its own book on standard accounting in the 1950s. That was in Carrington's day [as President]. I'd done my writing in 1948. I felt terribly sorry about it. I felt it was, in my sort of field, the major contribution accountants could make.

[Looking at Lancaster's paper] Where were these ideas coming from? I see there are cash flow charts.

From practical experience. If we sell more, then we want more capital, you see. We proved all this by featuring the elementary investigations. You talk about a cash flow chart; this is where cash flow charts came into it. Now, I never used those terms, but one did use the difference - the change - between the balance sheet this year and the balance sheet last year. 'Right: our sales have gone up by 25%. What's happened in the doing of it to our various things? This is what's happened: you see more stock, more purchases, more plant and this, that, and the other.' Then one is able to work back to a 20% or 25% rate of return on capital. It sounds like a miser's sort of return - you know, a ghastly Rachman type of return on capital. However, it is absolutely necessary to survive and grow.

We all think of business as fundamentally and basically at heart a matter of survival. If you can keep it up for 100 years, you know, you've done it! If you can make it grow, so much the better. The real vital thing is to survive. And we tried to produce arguments and illustrate them in simple form, not so much with these bar charts and things that people produce in reports to employees - we produce reports to employees in an informal sort of way. This is much simpler, much more related to the facts of what's actually going on in business.

**Yes. It is clear that there's a much more direct orientation here towards the business entity itself, rather than just how all the proceeds are going to be divided up between different groups.**

Yes, that's right. We used the concept of added value years - now it is quite often used, but we used it years ago - in coming to our conclusions that the thing to make, really, is to sell brains rather than metal. You are able to prove the people who are most successful in our own outfit - we are not making invidious comparisons: we're making comparisons in order to learn from each other's experiences, not to point out that 'he is no good' - to point out a whole lot of highly intelligent men working in their respective spheres and how the ones that happen to do these things

seem to come off best, with the higher added value and all that business. We were able to prove that some people, at least going back to the money and money values of some years ago, would say to you that producing added value of only £2,000 per man when the man's costing you £2,000 a year - well, you obviously can't afford much, can't do much. You've got nothing left; you've got to produce a high added value and we show why you've got to produce a high added value.

**So you were talking about value added, added values, right from your early days?**

Not from the very earliest. I would say we were talking about added value as a concept in these very simple terms, and using the word 'added value', say from 1965 on. Oddly enough, it's a funny thing, it's now used a lot. It wasn't used at all up until then I wouldn't say, or I hadn't seen it. Certainly to us, it was an original idea, and for our own purposes - for explanatory purposes as well as for measuring purposes.

**Well you were using it because it had a use, quite simply.**

Some business can never get anywhere, if it's working to these margins: it's got to do something. We've had one situation at Hughes, making perambulator wheels, we knew it was going to end, but we didn't know when. The funny thing was that right up to the day when it ended we were being pressed for delivery the whole time by the existing clients. We were always behind; we were being pressed for delivery because we weren't going to put a lot more plant down, a lot more things for something we knew was going to end. And so we were in trouble for the last year or two. We didn't cause the ending of it; we were just in trouble with our customers, and then it ended one day. Almost as fast as that.

It has taken us 14 years to cope with that situation. In other words, you take a business that suddenly crumples up completely - and we never sell our problems; you get people who sell immediately there's trouble: they'll

sell it, or try to, or sack a whole lot of men - now we don't do this. We, of course, have had to sack men as the work has gone down, but we never sacked whole places or sold any place. We make a point that we fight the situation out. And the business of Hughes is now an entirely different business; they are not making wheels in the ordinary sense of the word, certainly no bespoke wheels at all. But that, of course, is a very special situation.

We had another business - highly technical - and they never made enough margin really. It was quite obvious to everyone concerned: there was no survival in it. If there is survival, it is survival on such a low level that there's no fun in it; you will never attract good executives, and good technical men. And so what do you do? You then set about really a major designing job to make your products much cheaper, much more different, much more acceptable or something.

So we've had these advantages, by proving certain things, by arithmetic. It forces people to take action. It doesn't necessarily force them to take the right action, but it forces people to think and prove and try and experiment and do major re-designing operations.

**Now, I'd make to do a jump if I may, and that is to go on to the Summer Schools. You gave this paper in 1948.**

1948, yes.

**I'm just having a look. It was in 1947 that the first of these took place, at Christ Church, 1947. How did you get involved in giving the paper in the first place?**

Well, I was on the Cost Accounting Sub Committee of the Taxation and Financial Relations Committee. And I suppose my name was known in that capacity. And I think my partner, Leonard Barrows, was a very well

known accountant: he was a member of the Council of the Institute. I suppose, I don't know if he was on the committee that run the summer school, but if he wasn't he put my name forward as a possibility, and I suppose I was chosen. I don't know who by. I was asked to do it.

**And the paper was on standard costing?**

Standard costing, yes. Well, this is the subject I chose. It might have been chosen for me, I can't remember. It was developments in cost accounting with particular reference to standard costing.

**Did you make a practice of going to these summer schools?**

I'd never been to one before, and I've never been to one since. My partner was an Institute man: I wasn't. I'd been on one or two sub committees like the Training Sub Committee and that sort of thing, and this Cost Accounting Sub Committee. But he was very keen on it. And I gave this paper, and I took the opportunity of doing something I had a burning feeling about, and to explain it. A lot of people were talking about cost accounting by then. There was no text-book about it; you couldn't buy a text book. There were chaps like me giving occasional lectures about it, and no doubt others; chaps like [Lawrence] Robson were terribly keen, but he wasn't writing about it - he was practising it.

**He did write a text book didn't he?**

Lawrence Robson?

**Yes, he did write a text-book.**

Well, up to that time there wasn't a book available that I knew of, and so what I set out to do was to explain how it worked, from beginning to end - exactly how it worked, with all the supporting papers and illustrations.

And it turned out to be a ghastly and major task, because it isn't just explained: all the things have to link one with another. The cost of a product has got to link into the accounts for that department, and this and this. And I did it and everyone was a bit surprised: 63 pages [laugh]. I think it justified itself, because I think it did arouse considerable interest. Then, as I've said, I did a smaller one, published by Cornish Brothers in Birmingham. I did it for the Department of Economics and Business Administration, City of Birmingham Commercial College; they asked me to do it. I did a much simpler one, which I was rather proud of because I got a lot of what I wanted to say much shorter. But in the long one, I dealt with everything I could think of; I merely illustrated, if you like, the arithmetic of the thing.

There were a number of other people in those days who were very keen. We felt a sort of - almost a burning, or crusader, spirit about it: that it was almost like a revelation. Like the single idea of standard costing, when it entered my mind, it was almost like a revelation by comparison with how things had been done.

Well, the reason why I asked whether you'd been to any of the other Summer Schools was because I've been told by other people I've interviewed of exactly the same spirit you've just referred to, that took place in those summer schools. People would be up and discussing things until the small hours, night after night, very often either in connection with standard costing or in connection with inflation accounting - both of these issues were of burning interest.

Yes. I'm a member of the Institute, and envelopes come from the Institute and they almost hit you like a death note, there is so much bumph, you know. There was such eager talk in my day, and much less bumph - a tiny bit of bumph, and a lot of talk and argument and discussion. And quite a lot of conclusions, really. I suppose maybe it was a function of age; maybe the young men are equally excited.

Well, I suspect we've become rather bureaucratic. I think everything now has to be properly labelled and filed away.

You did mention inflation accounting earlier on. You said that you weren't primarily concerned about this?

I wasn't personally, and I wasn't from a business point of view. That doesn't mean I'm against it being done. But I've not got a lot of enthusiasm myself because I thought it all so slow moving; conclusions were so slow, and when they came out you couldn't help arguing with them. Even though you weren't an expert, you thought 'well, that is load of junk anyway. I wouldn't do that. I wouldn't dream of doing that'. And, meanwhile, you were running the business, and you were living with the problem they were talking about. They were years behind you. Inevitably. They had all the discussion and came out with a conclusion, but people had to solve that one. You had to solve the business of survival in inflation; you could solve it daily - you've got to deal with it and live with it. We learned our way how to keep profits up, and that sort of thing. We were never very interested in the plant side, not with us, the actual physical production of plant; it was nothing like as important to us as our stocks.

**This is in Wolseley Hughes?**

Yes, it happened, the merchandising thing happened to be dominant and rising, and we could contain the plant side. And another flaw in the plant side argument is that technology is advancing so fast that in fact you don't replace plant. You get a new thing a quarter of the size, or five times more effective. So the argument is sterile, in a way. I mean, lots of plant has to be replaced fairly frequently and so it is not a huge problem. You are not dealing with a thing you paid a pound for ten years ago and that you want to pay £10,000 for now. You are buying something different.

**You mentioned before lunch that with inflation, it was pricing that was key to the thing, I think.**

I think the really important thing to ensure survival, the thing that we concentrated on, was to explain to people this profit thing - why you've got to do it. We don't get the answer to it. Something's got to be done, and these are the sort of things that can be done - some people are doing this, and some are doing that. 'You [within the company] know much more about this business than anybody else, but this is the background.' This is the sort of thing that has got to be done [to explain the accounts], and everyone knows that.

Next, we [in Wolseley Hughes] concentrated enormously on cash and everything to do with cash, you see. And then of course you are careful with your dividends. When I say cash, you are careful over everything you do with cash; by getting it in quicker, you become better - you become better at credit control, you make fewer bad debts. And with stock, you become much cleverer at turning your stock over and eliminating obsolete stocks and keeping everything moving, and moving fast. I mean, if you can only do that - stock to us is a much more important thing than plant, really, in the cash handling. It is much more closely related to cash; it is something you can do something about fairly fast. And we did all those sort of things.

I suppose it is really the cutting edge of a 'Slater Walker' outlook on business - it is what you are in business for. I mean he [Jim Slater] is in business for making money, so to speak. Certainly, brought up in a town like Birmingham of course you will be trying to make money. But it wasn't the dominant thing: you were making - you were enjoying making - your things; it is sad that that aspect of business has gone a bit. You were enjoying the process of making things, and now suddenly you've suddenly got to sharpen it all up and make certain it all ticks fast.

**Presumably, the very opposite end of the spectrum is taxation; you would never really have taken a great deal of interest in tax?**

Yes. The process of doing tax computations and all that sort of thing, I think I found it, not sterile - it is terribly important work, but it didn't make me tick or feel excited. I mean from my active years of running my own ship, which is something more than 20 years, somehow with all its anxieties and the crises that occur you feel almost permanently excited, in a way - pleased about what your doing. And it doesn't seem like work. You can work 24 hours a day; it doesn't seem like work.

**Yes. Just for the record, I just want to make the comment that you made going into lunch, that you feel there are too many accountants in dominant positions in the company.**

Well, it is funny you should mention that. You are one of the few men that have ever mentioned it to me. It is a thing I often mention myself and to other people.

**I feel it very strongly myself.**

I feel it's a tragedy. I mean the next boss of Guest Keen and Nettlefold is Trevor Holdsworth and I'm not at all surprised to read that he's an accountant. I've never met Trevor for many years. I'm told he is terribly good. But he's an accountant. I think in some ways I would have been so pleased to read that he was a bloody good engineer, you know, running the biggest engineering outfit in this country. Now my great friend Bertie Wearing, Sir Bertram Wearing, is chairman of Hoopers - an accountant. I'm an accountant. I always say to Lucas or anyone else that accountancy is a very good training, in a very necessary technique, ideally cast as number two or three in the company. And I would like [as number one] either an engineer or a marketing man or an engineering man with a marketing

outlook - everyone's got to have a marketing outlook, everyone. You start with a marketing outlook, I think.

**Have you sought this in any way with your connection with Birmingham University; have you encouraged the commerce people there to study marketing or to broaden their scope?**

No, I haven't really had any relation with them, apart from knowing John Samuel. The other man is [Trevor] Gambling.

**Yes, Gambling.**

He is a very theoretical accountant. I have almost got no contact - I don't know what he is writing about, you know. I've read his stuff, and I haven't the faintest what his talking about. But no, I haven't. I'm not certain it's a good thing to mention in public much. It is merely to me a little note of sadness. I don't think that if you went to Switzerland - and I haven't proved this, you know: it is one of these things I air opinions about, but I don't know whether I'm right at all - but I don't think, if you went to a CIBA drugs-producing organisation in Switzerland, I don't think you would find an accountant there somehow. And the big Swiss makers of diesel engines or watch makers, somehow I don't think you'd find accountants there.

Although you can argue, I suppose, that businesses are now much more bureaucratic than they used to be: much more has got to be done by way of governance than I suppose that an accountant's training isn't too bad. And oddly enough, of course, a number of accountants running outfits are running them jolly well. The man running RACAL, you know, the electronic firm, I think he is an accountant; he must be a brilliant fellow. It always strikes me, I don't know why, with a wee bit of sadness.

**Well, in my mind it is simply because the accountant is not likely to have the same grasp of the technological possibilities as an engineer or a**

**scientist. A technologist will know what is possible looking ahead; he'll have a feel for it. An accountant won't have the same feel for where the business might go with a bit of imagination.**

And I think another thing is, you see, you are taught to be very careful when you're an accountant; you can't have a careless accountant, by definition. You are taught always probity and care and exactness and detail - all this business which you've got to learn. Now I'm not certain that men running business haven't to be daring, you see, with a good element of daring and risk taking.

My son went to Christ Church, because when he was asked: 'where do you want to go, Oxford, or Cambridge?' he said he'd like to go to Oxford. And when they said 'what college?' he said 'Christ Church', because it was the only one he'd ever heard of [laugh]. But it happens to be a very good place, Christ Church.

**Yes; what did he read?**

He did history with the emphasis on military history. It was a very good thing to do, very good for business. But I reckon he is one of the best men I've ever known with figures, because he worked them all out himself, with his own reasons. He's heard my talks about things, so he knows all that background. And then when he comes to doing it himself, with whatever it is - ninety branches - he would do the forward budgeting for all the branches himself, month by month, his own handling you see. And, working it all out for himself. Every time he had a new problem he worked out for himself. He hasn't got all the textbooks about how accounts ought to be prepared and that sort of thing; he worked out what he, running that branch, would need.

It happens to end up, I think, looking jolly bright. So I see he hasn't clogged himself up with law and bankruptcy and company law and all the fears of

things that go wrong. All that lot is cut off. A lot of the accountants that you don't want are cut off; somebody else is doing those. He [Norman Lancaster's son] is working with the practical figures that you want to make the thing hum and to beat the competitors. He undertakes to do the operations at a cost which will not exceed 80% of his nearest worth-while competitors, you see. And how you set about doing that is what he turns his mind to, you see, unclogged by a great knowledge of taxes.

**It sounds as though you are saying an accountant's is not a very good business training?**

Well, I think it's a very good business training for accountants, and I think there are a large number of accountants. I wouldn't think it's the best training, but having said that I can only assume that, when compared with the training other people get in other jobs like engineers, when related to business, accountancy is better than what they've got. And I think it is because the poor old engineer is always one of fifty. When I went to Fisher & Ludlow I would go as chief accountant, invited to sit in on all board meetings, you see, in the chairman's office and the managing director's office, all day long, in and out - no problem, you see.

And then my good pals - these first rate fellows doing the estimates, first rate men out of university and doing the tool design and the body design - I mean they don't see anyone. They're working in a remote sort of place, you know, rather slow sort of work designing this, this and this. And I think it has given me an almost an unfair advantage. I went there and a chap says - you get on reasonably well - 'oh, he's a good fellow; he told us how to save money'. I saved more than my salary in the first year at Fisher & Ludlow, you see - just a few things on insurance, on bank charges. You have the wonderful feeling - I think this is the thing an accountant ought to know about - the wonderful feeling: 'They've got me for nothing'. What's more, I think I told them so [laugh]! And automatically they take on the idea that you are jolly good, you know [laugh].

Whereas the engineer chap is probably equally good or better, mentally, but he doesn't stand out, he doesn't have the chance. And only one out of 50 gets chosen. So, I don't know - I suppose I'm ambivalent or whatever the word is.

**Engineer training isn't very good at that side of things; it still isn't today. They don't get much business training. Some of them are trained in some economics, but that's not terribly helpful.**

In Birmingham, of course, we're one of the universities selected to do the four year training, which might do something. I don't know.

**But on the continent, I think I'm right in saying, an engineer will train for six years or so, and have a chance to learn a lot more about accountancy as well a business.**

I don't know how it is. I suppose money - with taxation as high as it is - money is so important that you go bust if that side goes wrong. The whole situation in this country tends to push the accountants forward. God knows how many members there are in the Institute now.

**65,000.**

And none of them are producing anything, whereas a farmer in the Vale of Evesham, or a coal miner, or a sailor .... I mean we talk about bureaucrats that we've got, all these bureaucrats, owing to the complexity of our society. Well, there we are. I think it's a good profession.

I am not sure if I'd do it again. I think in some ways it is almost too soul destroying. I broke out of it by going into the industry, which I think really makes me tick. I mean the whole process, whether it's a factory or whether it's running a shop, interests me very much.

**You've mentioned one or two people who profoundly impressed you as accountants, such as de Paula.**

Well, de Paula was very much, I suppose, like I feel I am myself. I think de Paula was a man who thought like this; this would have made him tick. I always got the impression - I don't know, I never knew him well - but he was a charmer: I thought he was a very charming man, a very rounded sort of man, and I think these were the things that interested him. I remember the man at Austin - I forget his name, he had a rather complicated name: he was chief accountant - he said: 'time is money' - the whole of his thing was time, time everywhere you see. And I think it is those sort of men who have interested me. De Paula did not put it like that, but de Paula made it very clear that it was this side of the Dunlop business which made him tick.

Lawrence Robson was very different. I think Lawrence Robson was good at this sort of thing, good at it. And of course it was his profession to sell it; he sold it with great success. So you can't be quite certain with him that it's the same - almost poetical or artistic - side of the thing that appealed to him, you can't be certain. But he was very good. With de Paula, I think it was this side of business life that appealed to him.

**Stanley Dixon - what about him?**

Well, I never knew him in that capacity. When I knew him, he was chairman of the Birmingham District Society of Chartered Accountants. I think he was one of the first industrial members of the Institute. He ran a company - Midland Coal Tar Distillers, I think, right off my sort of line. I don't know what they're doing; I don't know what they're up to at all. And I merely knew him as a very honest man, but we didn't coincide in time with this sort of thing. I mean, when I was on this costing committee he wasn't; he joined the Institute on the Council later.

**And became President?**

And became President, and a very good one, a very popular one.

**Yes. The other accountant who you have mentioned is Lord Plender; did you come across him?**

Lord Plender was the most remarkable man. I think he had the highest standards, and, with due respect to all the other fellow chartered accountants, I think Deloitte were slightly ahead. I don't mean they were technically or professionally better, but Lord Plender had absolutely these views. First, when I was interviewed to join Deloitte to go to New York, I was told: 'in our firm we have no nepotism; no partner's son is allowed to join the firm, no one gets his position in the firm by wealth or social standing or social background'. Everyone earns their place. That's number one: where you stand - not a question of whether you are Scottish or Welsh or English or indeed Indian, but a matter of how good you are at your work. That's number one.

Secondly, he wouldn't open any branches; he didn't have any branches anywhere. He said: 'I am a London accountant; anyone who wants me can look me up in the phone book and come and see us. But I'm not going to be like Boots the chemist and have shops all over the place. You see now Deloitte have all branched out; the fact is they were the last to, and he didn't agree with it. He didn't agree with this thing, Lord Plender in his day.

Then we had these incredibly high standards for a sort of probity. He would never take a job from a brother accountant anywhere unless the reasons were palpable and obvious that there's got to be a change. He had all these standards which were well known to all the people. He was a remarkable man.

**I was just taking a look to see when he retired; he retired in 1946, after 49 years as a partner.**

That's right. I think I'm right in saying that he was the only man who has ever been made a baron in this country just for being a professional accountant - no one else has been. He was quite a chap. Of course, I was down there and he was up there, and you saw him once in a blue moon. I don't think I ever had a talk with him. But one's very conscious of what he stood for, and what he expected the rest of us to stand for.

**Yes.**

I know a bit because my brother went to Price Waterhouse, who were very different - a very good outfit, but different.

**Did he stay in the profession or did he go into industry?**

Oh yes he stayed in the profession. He was a partner in Howard Smith's in Birmingham, as I was. And I left and returned to industry, and he went on and became of course a part of Price Waterhouse organisation again. And I think there were four other partners who were knights, so it was quite an outfit. You knew jolly well you were in an outfit, indeed. Sir Harold Howitt: Harwood Banner - they used to be names - people will always have a vogue man. It might be Thompson McClintock, or Gilbert Garnsey - he was very much a vogue man, but he burned himself out pretty young - brilliant, hard working. But the funny thing is that Deloitte didn't produce these vogue men. They just went on all the time, being damned good. And now, I think if you work it out, you can see these accountants still run one of the biggest practices in the country.

**Yes, by many measures.**

Yes, that's right. Very extraordinary and they haven't got these outstanding characters or these wonderful fellows, but they have got these standards; they had them in my days, and are terribly conscious of them.

**And that has survived this huge merger with Harwood Banner?**

Oh, yes.

**Enormous problem for a firm to absorb two streams of business.**

Yes. Well, I don't think Harwood Banner was anything like up to Deloitte's standard. And I think of course, for the reasons I've stated, Deloitte were very late starters in this branch affair, and I think they joined with Harwood Banner because Harwood Banner owned a hell of a lot of branches. And I have no doubt that they will be coming up to Deloitte standards. I don't speak disrespectfully of Harwood Banner, but I think they are a different sort of breed, really. They were Liverpool based, too.

**That's right, yes. You mention Garnsey just now. When did you start doing any consolidations?**

When was it brought into the Companies Act?

**Not effectively until 1948. There was a provision in 1929, but one could side step it.**

I think the consolidations prior to it going into the Companies Act were like people playing about with inflation accounting at this moment - you know, a lot of people are producing statements at the end of their accounts. I doubt if anything like that would have been done, but lots of accountants and internal accountants were playing about with consolidation. But I don't think that until the Companies Act came out that it was done as a serious matter. No doubt some people did it.

**That is linked to the question, which I think is quite an important one, which is what do you really see as the purpose of published accounts - who do you regard as the beneficiaries?**

Well, I will tell you what. Wolseley Hughes and I, we won the prize in 1965 for smaller companies' accounts - you know, *The Accountant's* prize. In those days, I think we were all rather interested in improving accounts, from a number of points of view. We in Wolseley Hughes took the view that the number one objective was legibility. When I mean legibility, I do not mean easy to read but that it was really an explanation of what was going on in as clear a way as you could get a complicated matter: that's the way it should be looked at. And why do you look at it like that? Because if it is like that, then people will look at it. And who do you want to look at it? I suppose you've got to say number one should be the shareholders. In our case, I think it was becoming so, but the shareholders are institutions - they are ceasing to be private individuals. So you are producing stuff for very intelligent men, in other words investment managers of the Sun Alliance and London Insurance Company, and this, that and the other Unit Trust.

These are the people you are working for, and you want them to understand fairly quickly and you want them to get a good impression of you as an outfit. So it is for the shareholders, which is really the institutional shareholders. You are also writing to the City; you are producing for the City editors and the whole stock-broking fraternity, who are after all writing their briefs for the investment managers and the big institutions and who want to get the message over. You want them to get a good impression.

So that's the institutions, the City editors and men writing about financial affairs, and the stock brokers who are probing, writing for their clients, the institutions. Then we also have our employees in mind in Wolseley Hughes; we want our employees to know as much about the business as they want to know. In other words, we always say: 'open management

means all cards on the table'. You see this was our philosophy. People can then ask questions and read and all that sort of thing. And so we produced our accounts as clearly as we could make them. I think we weren't leaders; people like Levers, I think they produced the modern form of balance sheet first, I think, in this country. Didn't they produce a balance sheet in single column form, that sort of thing? They were very clear, and very easy to read.

So we weren't leaders, but we tried to be fairly quick followers and we did have these things deliberately in mind as we made our big change. In Wolseley Hughes we made our big change to produce a decent set of accounts. We produced what you might call a traditional set of accounts prior to that, just sort of things to satisfy company law or satisfy the accountants and auditors and things. And then we made a leap forward under the heading of public relations or business, however you like to put it - good business. You want your employees to come with you and you want your employees to understand.

**Did they have the same accounts as the published set?**

Yes. We now produce an employees thing which is to introduce a little bit of personal stuff into it, you know; photographs of the bosses and talk about the machinery and all that sort of business, and a few simplified charts. I find these sort of bar charts and all the coloured stuff now produced - I find them confusing rather than helpful. But we try.



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