

MANAGEMENT BY OBJECTIVES: A CRITICAL VIEW

*"try it. It is
a fail-safe device . . .
at worst will merely
arouse false hopes"*

MBO — Management by Objectives — has achieved great recent popularity in management circles,¹ not only in private industry but increasingly in hospitals, school districts and the like. General Mills, Minnesota Mining and Manufacturing, Honeywell, PPG, Kimberly-Clark, these are but a few of the companies which have experimented with this promising new technique.² But there are numerous organizations which have tried it out and then abandoned it — and probably many more in which the program never really got off the ground or, after quick initial success, was gradually allowed to become moribund.³ Too many managers look upon MBO either as a gimmick or a cure-all, without giving careful thought to the objectives they want MBO to accomplish — or the adjustments which must be made if these objectives are to be achieved. In other words, there is too little MBO-type thinking to the concept of MBO itself. This failure to recognize the fuzziness in MBO's own objectives has contributed to the ambiguity of MBO's results.

MBO is too useful a concept to be accepted blindly. Its difficulties must be squarely faced if management is to take full advantage of its strengths. Let me start out with the question of objectives, then describe the major problems which arise from MBO in practice, and finally suggest the realistic limits to MBO's use.

CONFUSION AS TO OBJECTIVES

MBO is an umbrella concept covering a multitude of objectives. For some it is a means of introducing a Theory-Y oriented form of autonomy in which managers are given freedom to set their own goals. Others approach it in terms of Theory X — as a means of tightening managerial control and getting subordinates to do exactly what management wants.

The personnel director of an industrial laboratory looked upon it as a form of individual performance appraisal; the lab manager hoped it would get "the lab moving together

as a team"; but for the majority of managers it seemed merely an additional contribution of their paperwork. One man said, "MBO, I do that. That's management by exception. If a man gets out of line you straighten him out."⁴

What did the originators of the concept want MBO to accomplish? Here we find little real agreement either.

PERFORMANCE APPRAISAL

As much as anyone, Douglas McGregor was responsible for the MBO concept, although he never used the term himself.⁵ McGregor was looking for a method of performance appraisal which was superior to the traditional rating system.⁶ Critics argued that the traditional system:

... stressed personality traits, which were subjective and difficult to measure or change;
... provided that ratings be determined in a unilateral fashion with the supervisor "playing God" and judging the subordinate's personal worth (as opposed to his performance);
... tended to emphasize past mistakes rather than future performance.

MBO sought to overcome all these problems by basing appraisal on (a) quantitative, measurable (or at least concrete) performance goals (b) set jointly by superior and subordinate. Thus the subordinate is judged by standards he helped determine.

PLANNING AND CONTROL

Soon it became apparent that MBO was useful, not just as a personnel tool, but as a means of planning and control.⁷ MBO's new use was as an improved form of budgeting.

In too many companies, planning consists merely of adopting short-run cost budgets and setting sales targets. Global objectives may be set, but relatively little thought is given to how these goals are to be reached. And with the primary emphasis placed on *this* period's costs, profits and sales, there is a tendency to ignore other variables which may contribute to profits over longer periods,

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variables such as equipment maintenance, employee and product development, and customer relations.

MBO (at least when it works as it should) requires management to define exactly what it wants to accomplish and to specify all important objectives, especially those commonly ignored. It reduces the emphasis on short-run profits,⁸ increases the number of managerial goals and forces the explicit consideration of exactly what steps must be taken if these goals are to be fulfilled. In this way, it helps subordinates learn what is required of them, thus reducing their need for guesswork. As a result, it makes decision-making more rational, both for boss and subordinate. In sum, MBO can become a coordinated process of planning which involves every management level in determining both the goals which it will meet and the means by which they are to be met.

A DECISION-MAKING TOOL

Some companies go even further. MBO is viewed as a tool to help top management re-evaluate whether the organization's present activities contribute to the organization's real objectives. MBO here is looked upon not as a means of evaluating individuals or of communicating management priorities, but as a tough-minded approach to problem-solving. (It is in a sense analogous to PPBS at the governmental level.)

As I will argue below, the autonomy and self-direction implied by the first objective runs somewhat counter to the coordinated control inherent in the second, and neither are entirely congruent with the decision-making approach of the third. Unfortunately, these inconsistencies have been insufficiently recognized by those who would make MBO a multi-purpose remedy. Further, both literature and practice today seem to be giving greater emphasis to MBO-as-planning and playing down its role in evaluation.⁹ And yet the rhetoric inspired by the early emphasis on self-direction at times leads to false hopes that MBO will democratize the organization.

SOME TYPICAL PROBLEMS

So much for objectives. What sorts of problems arise under MBO in practice? Here are some typical comments:

"There is a lot of paperwork in MBO. All sorts of goals are set and we talk big. But on a day-to-day basis, nothing changes. We are all too busy fighting fires for me to get involved in those extra things which I promised to do in MBO. And so is my boss."

"I could meet all my goals in training my men and developing new accounts, but in so doing I would lose \$1,000,000 in bread-and-butter sales. MBO emphasizes fringes over the main objectives."

"MBO doesn't work where there is job rotation. My predecessor expected to be transferred soon. He accepted some unreasonable goals and I just don't feel bound by them."

"There is no follow up in my organization. They set goals with a big flourish, but no one pays any attention to them six months later."

"Things move so fast that by the time the review period comes around the goals are no longer relevant."

"If you don't meet goals in my company you can always find excuses. MBO just teaches you to lie better."

The above may imply only that the bosses of the managers who made these comments have failed to understand or accept the MBO philosophy. But more is involved. There are inherent conflicts between MBO and other management policies and, as suggested earlier, inconsistencies between the goals of MBO itself.

SUBORDINATE PARTICIPATION IN GOAL SETTING

As long as the subordinate is judged in terms of how well he does in terms of goals he himself sets, there is a danger that he will set his goals just as low as he can so as to give himself greater leeway in case of trouble. After all, his apparent success is a function of initial goals. If his goals are modest, it is easy to look good. And so — where MBO is working poorly — the subordinate tries to set a low initial goal and sell his boss that the goal is really hard.

I suspect that only in a minority of cases do subordinates feel really free to set goals as they wish. MBO may work where the managers' everyday style of management is participative and non-directive. But it is too much to expect the ordinary hard-bitten manager, who is directive and decisive, to transform himself suddenly into a participative manager when he engages in MBO.¹⁰ In any case, knowing that his boss is the one who hands out rewards, the typical subordinate may look anxiously for some indication of what the boss thinks are proper goals. Once these become clear, he will quickly adopt them with "enthusiasm." Indeed, some subordinates might prefer that their boss indicate his wishes frankly from the start, instead of putting them through guessing games.

Actually the freedom of the subordinate to set his own goals is highly restricted whenever any kind of common plan is required.¹¹ It makes little sense for production to plan 15 per cent more output if marketing plans only 10 per cent more sales or for a plant manager to decide to rebuild a production bay if top management has decided to curb capital expenditures. Individual goals have to be consistent with organizational goals.¹² Thus organizational demands may conflict with individual desires, raising problems which I will discuss later on.

OBJECTIVE STANDARDS

MBO involves setting objective standards. Instead of telling a foreman he should exert more forceful leadership, he is set the goal of increasing production by 17 per cent or introducing a new line of equipment by November 1.

The trouble with such goals is they often force the subordinate to *look* good rather than *be* good and to emphasize the measurable rather than the unmeasurable. To be sure, some MBO systems make provision for unmeasurable goals, but exact numbers inevitably speak louder than vague descriptions.

Production, which is measurable, is emphasized over employee development, which is not. Or, if employee development is to be measured, it is in terms of such superficial measures as the gross number of employees sent to training classes, not how this training changes behavior on the job.¹³ Creative work, such as research, personnel or advertising, is often difficult to evaluate, as indeed is most staff work. Because of this difficulty, quality may be sacrificed for sheer quantity.

A laboratory director set as his goal the enhancement of his laboratory's professional prestige, but since prestige is difficult to measure, he set as his performance target a certain number of papers to be read at professional meetings. And to fill this quota he "encouraged" individual subordinates to accept the writing of papers as goals for themselves. The result, as might be expected, was that the required number of papers were read, but that they were of such poor quality as to lower rather than raise the laboratory's prestige. (The story might have been less tragic, however, if the director's subordinates had felt really free to reject their assignments.)

Overemphasis on measurable data may also encourage the covering up of poor performance or the actual falsification of data. Long-run improvement may be slighted to look good during the current evaluation period. Since each individual is anxious to make himself look good, cooperation is discouraged. In addition, to the extent that a manager's overall performance is evaluated on the basis of a relatively few measures, there is always the danger that accidental factors outside of his control may distort the picture. A good manager with bad luck may look worse than a bad manager with good luck.

Unless an endless number of factors are measured, some significant items may be ignored or fall into the chinks between measured goals. And when one goal can be achieved only at the potential expense of another, the manager often has only imperfect standards for choice. He may easily emphasize side goals over the main show. ("I could

meet all my goals in training my men and developing new accounts, but in so doing I would lose \$1,000,000 in bread-and-butter sales.")

An important question relates to the assigning of responsibilities. For example, if a new product flops, who is held responsible: product development, for not doing its homework? manufacturing, for poor quality? or, marketing, for insufficient sales effort? Some authors suggest that managers should be held responsible merely for factors under their direct control. Others argue for joint goals, with joint responsibility. Both approaches encourage buck-passing.

Staff effort is particularly difficult to measure, because staff, of course, has to achieve its results through others.

ORGANIZATION REWARDS

How is MBO to be tied into the organizational reward system? There are those who say that MBO and salary appraisal should be two separate processes, but this is difficult to work in practice.

Of course, there are real problems in integrating the two systems. If a man's pay depends on how well he meets the goals he sets for himself, he has every incentive to set these goals low and to blame his failure on someone else. Certainly the greater the emphasis we place on MBO in terms of determining salaries, the more likely subordinates are to emphasize short-run measurable results over longer-run intangibles.

But in a money-oriented society, if MBO isn't tied into the reward system, why should anyone pay attention to MBO at all? If MBO sets one set of goals and compensation rewards another, we get nothing but confusion.

So the two have to be integrated. But this means not only that goals have to be accepted by the individual and consistent with the overall organizational plan, but also that they must be fair and equitable, so that one manager is not set

a goal which is harder than another's. To satisfy all these conflicting objectives is far from easy.

Finally, and certainly complicating both MBO and reward systems, is the fact that the organization exists in a turbulent environment. A company's sales record may be more a function of what happens in Washington than the effectiveness of its individual sales managers.

PARTICIPATION

MBO today has two primary objectives, individual performance appraisal and managerial planning and control.¹⁴ The first objective implies that each manager will participate in setting his own individual goal, the second that these individual goals will be consistent with those of the organization as a whole. If these two objectives are not to clash, individual managers must participate in setting not only their own goals but those of the organization generally. In theory this means that there is a great deal of consultation, crossing all managerial levels, until a master plan is developed which everyone *freely* accepts.

Followed to its logical conclusion, MBO is a means of introducing participative (Theory Y, System 4, Argyris's YB) management on an organization-wide basis. The revolutionary implication of this is that each individual manager will do more than determine the details of how to carry out organizational goals, he will participate in determining the goals themselves. If meant seriously, MBO could be an organization development technique more potent than, say, sensitivity training or the Grid. It would threaten the corporate power structure and transform the traditional hierarchical structure of decision-making into something closer to Likert's System 4 interlocking chain of highly participative work groups.

Whether such a drastic change would be desirable is beside the point. Corporate democracy is more than most managements bargained for when they agreed

to accept MBO. Over the last 10 years, the MBO literature has played down and redefined the concept of subordinate goal setting, so that the idea today differs considerably from that originally proposed by McGregor. In practice, MBO today is often viewed as means of tightening, not loosening, top management controls. Despite some trimmings of participation, top management typically sets the *basic* goals. Subordinates may have some freedom to set secondary goals (with regards to housekeeping or training, for example, but not with regards to production levels or capital outlays), to voice objections and to determine how to *carry out* basic goals. Essentially the freedom is one of means, not ends. At Minneapolis Mining and Manufacturing,

the process starts with the department manager sitting with each of his immediate subordinates to get across the general idea of what is to be required, based on objectives established at the top of the corporation . . . Then each of these men sits with his subordinates, until the lowest man involved has been brought into the picture. At this point, the process reverses direction and specific objectives come up from the bottom, along with detailed plans for attaining them. The objectives are so set that the requirements will be met; if not, they are changed. *A boss cannot accept a subordinate's requirements unless he knows that they will produce what is required.*¹⁵

The trouble is that those who view MBO primarily as a means of increasing individual participation may raise expectations which are inconsistent with organizational realities.

To introduce a program of objectives may be to change the subordinate's expectations about participation and involvement . . . There seems to be a clear implication that he will have something to say about the factor or problem in which he is involved. The most serious human relations problems probably occur in organizations where there is an incongruity between the verbalized level and actual level of subordinate influence, that is participation may be a stated policy, but in practice does not occur.¹⁶

A REALISTIC VIEW

If my arguments are valid, it would be wrong to view MBO either as an all-purpose cure for every management ill or as a Trojan Horse which can be used to insinuate full-fledged Theory Y concepts of management throughout the organization. MBO can play a useful role, even if it isn't the star of the show.

1. As suggested just above, it is misleading and unrealistic to suggest that MBO can permit subordinates to set goals just for themselves, except in secondary areas. MBO in fact requires more communications, perhaps more mutual influence, but probably less autonomy and individual freedom. Group participation may increase, individual discretion may not. Where MBO is viewed as

an exercise in subordinate motivation, the subordinate may "own" the goals, but the boss feels little commitment to them. The reverse may be true where the goals are imposed by the boss in conformance with a master plan. It is extremely difficult to develop joint ownership or commitment.

2. Hard-nosed as managers are supposed to be, many find it difficult to operationalize their goals — to be really specific as to what they want either their subordinates or themselves to obtain. The research studies to date suggest that it is the setting of clear, concrete goals which is important, not the sense of participation.¹⁷ Concrete goals direct performance, reduce uncertainty and serve as an instrument of communi-

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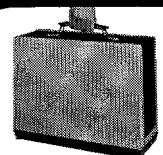
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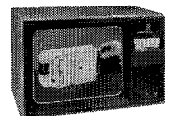
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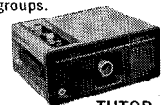
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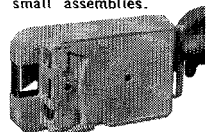
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cations — and do so whether the goals are introduced directly or participatively.

3. MBO may point out where greater coordination between managers is required. The goal setting process may be particularly useful in facilitating what has been called “bargaining” between boss and subordinate, line and staff, or departments tied together in the work flow (especially when such bargaining is confined to the details relating to goals set by higher levels). Department A may agree to cut scrap losses by 10 per cent, but insists Department B must tighten tolerance by a given amount, Personnel must recruit better trained employees, and that the boss obtain a capital authorization to purchase two new machines by April 15. Where there is joint responsibility, individual inputs should be specified in advance. The process of hammering out agreements on matters such as this may be MBO’s most valuable byproduct.¹⁸

4. Effective MBO may permit and even require structural changes. Cases have been reported where MBO has led to broader spans of control and the elimination of organizational levels. As various studies have shown rules and goals can serve as substitutes for close supervision.¹⁹

5. Reasonable care should be taken to insure that the right goals are set: the measures of success should measure what is really important to achieve, not trivia; the short run should not be emphasized over the long run, the measurable over the subjective, or the performance of single units at the expense of the organization as a whole. There is room for some experimentation with “contingency goals” (if Product X is released by April 15, we will raise sales level to 30,000 units by July 1) or “variable goals” (for every one per cent increase in production, unit costs will be reduced by .2 per cent). MBO can discourage flexible response to unexpected happenings; hopefully it can be designed to do the reverse.

6. Goals, however, can be overstressed. Ingenuity in solving problems is what counts, not ingenuity in measuring performance. It would be hopelessly unproductive to try to seek to develop a concrete goal for every aspect of performance. Goals may highlight special areas of emphasis. But managers should be rewarded on their overall performance, not just aspects specifically measured. Judgment and discretion are required in interpreting performance data. Results do not “speak for themselves.”

7. MBO must solve the problem of its relationship to reward systems. I think salary appraisal should be a fairly explicit procedure in which individuals are (in most cases) told the basis for pay decisions. MBO results should perhaps be the major input into this process, but the reward system should take into account a broader set of variables than does MBO, including many nonmeasurable.

8. Individual contributions should not be overemphasized. Some companies now base their rewards not just on the individual’s own performance but also on the performance of his department and the organization as a whole, and this would seem to be a desirable move.

9. To a considerable extent the effectiveness of a MBO program depends on how the superior reacts when a subordinate fails to meet his goals. If the superior acts in a punitive manner, the subordinate will fear to take risks in the future and will seek to be given only the most conservative goals. Thus the boss must permit failure. On the other hand, if the boss completely ignores the failure, the subordinate may decide the entire MBO program is meaningless. Obviously the middle ground is preferable: the superior should use the failure as a springboard for a discussion of how performance in the affected area may be improved in the future.

CONCLUSION

MBO has a number of attractive features. Its emphasis on specific goals

makes performance appraisal more objective, and even limited subordinate involvement in goal-setting tends to make “goals more realistic and palatable to the individual . . . No small accomplishment.”²⁰ MBO is a step toward a systems view of management, linking individual goals to those of the organization as a whole, strategies to objectives and facilitating coordination (bargaining) between departments. Ideally, it forces management at each level to specify exactly what it is seeking to accomplish, and it can be an effective means of communication, at least downward.

MBO’s main limitations are of two sorts:

1. As the quotations previously presented illustrate, in many companies MBO is viewed as a gimmick or a slogan rather than as a method of management. Impractical goals are established without considering the likelihood of their being realized, and, once the going gets tough, they are forgotten.

2. MBO is not very realistic if looked upon entirely or primarily as a method of performance appraisal or subordinate goal-setting. Unless they deal with trivia, individual goals must mesh with those of the organization. At the most MBO can permit (a) greater individual control over how broader goals are met and (b) perhaps, within narrow limits, some greater influence regarding the level of these goals themselves.

Of the two fathers of the MBO concept, McGregor emphasized participation, Drucker goal-setting. The Drucker approach seems to be winning out. In many companies MBO is viewed chiefly as a means of communicating top management’s goals. MBO is increasingly achievement rather than human relations-oriented.

Most companies which have experimented with MBO have treated it as a personnel technique (or even a gimmick), on the order of T-groups, brainstorming, employee counseling or the case method approach to training. Given

management's propensity to abandon old programs of this sort whenever a new fad comes along, I suspect that by 1980 the term MBO will be something of an anachronism. And yet, in a number of companies it will have left a legacy of more systematic planning, tighter, more realistic controls and better communications.

For those companies considering the adoption of MBO, I would say, "Try it. It is a fail-safe device which (compared, for example, to T-groups, which can do real harm) at worst will merely arouse false hopes."

REFERENCES

1. See, for example, John P. Campbell and others, *Managerial Behavior, Performance, and Effectiveness*, McGraw-Hill, New York, 1970, pp. 62-67. In Britain, too, it is "the current management top fashion," *The Economist*, Apr. 25, 1970, p. 60.
2. According to a 1964 survey, 23 per cent of the 141 companies surveyed made "much use" of "appraisal against specific objectives." W.S. Wickstrom, *Developing Management Competence: Changing Concepts — Emerging Practices*, National Industrial Conference Board, Studies in Personnel Policy, No. 189, 1964, p. 26. A similar 1964 study reported but five per cent of the companies responding utilized MBO. Bureau of National Affairs, *Managerial Appraisal Programs*, Personnel Practices Forum, Survey No. 74, Sep. 1964. It seems reasonably likely that the percentages are considerably higher today.
3. Recently I polled the participants in a management course of mine as to the experience of their companies with MBO. These managers came from a broad range of manufacturing firms. Of the approximately 25 per cent who came from companies which had tried MBO, about one-third said the experience had been bad; in most of these companies MBO had been either formally dropped or, more commonly, it had just faded away. In another third, MBO was judged a success, and in the final third the experience was mixed. This is hardly my idea of rigorous research, but I suspect more careful studies would come to roughly the same conclusions.
4. I am indebted to Raymond Miles for this case. For other useful suggestions, I owe a debt to David Bowen, Joseph Robinson, Charles Snow, and John Sims — as well as to the Berkeley Organizational Behavior-Industrial Relations Ph.D. Seminar.
5. Perhaps equally responsible was Peter Drucker. See his *The Practice of Management*, Harpers, New York, 1954.
6. See Douglas McGregor, "An Uneasy Look at Performance Appraisal," *Harvard Business Review*, Vol. 35, No. 3, May-June 1957.
7. George Odiorne was to a large extent responsible for popularizing this approach to MBO. See his highly influential *Management by Objectives*, Pitman, New York, 1964.
8. In Likert's terms, MBO places emphasis on intervening as well as on end-results variables. Rensis Likert, *The Human Organization* McGraw-Hill, New York, 1967. MBO can also take advantage of "human assets accounting."
9. The changing emphasis means that MBO is less the property of the personnel department (or individual managers at all levels) and more the property of top management.
10. According to one study, subordinate goal setting leads to higher goal achievement than does goal setting by the boss only when the boss's usual pattern of management is participative. John R.P. French, Jr., Emanuel Kay, and Herbert H. Meyer, "Participation and the Appraisal System," *Human Relations*, Vol. 19, No. 1, 1966, p. 14.
11. According to one study of a single company, higher level managers feel greater freedom to set their own objectives in the MBO process than do those at lower levels; greater freedom is also felt by managers in areas, such as marketing, where top management control is relatively difficult and the need for close coordination with other departments relatively little. Henry L. Tossi, Jr., and Stephen J. Carroll, "Some Structural Factors Related to Goal Influence in the Management by Objectives Process," *MSU Business Topics*, Spring, 1969, pp. 45-50.
12. Some companies distinguish between *personnel development* and *performance* objectives. Such a personal development objective for a design engineer might be to spend more time with the marketing staff, so that his product design might better anticipate changes in consumer preferences — or to attend a leadership training program to improve his relations with subordinates. Individual managers have considerably greater freedom to set their personal objectives than their performance objectives. Indeed there is tie-in between freedom to set personal objectives and what has been called the "open system" approach to management development. Theodore M. Alford, "Checkers or Choice in Manpower Management," *Harvard Business Review*, Vol. 45, Jan.-Feb. 1967. By and large personal goals are secondary to performance. And so, MBO permits substantial subordinate participation only in relatively unimportant areas.
13. In other words, where output variables cannot be measured, the tendency is to measure input.
14. The decision-making objective, as yet, is running a poor third, though it is rapidly closing the gap.
15. National Industrial Conference Board, *Managing By and With Objectives*, Studies in Personnel Policy, No. 212, 1968, p. 58. Emphasis added.
16. Tossi and Carroll, *op. cit.*, pp. 50 and 45.
17. French, Kay, Meyer, *op. cit.*, and Stephen L. Carroll, Jr., and Henry Tossi, "Goal Characteristics and Personality Factors in a Management-by-Objectives Program," *Administrative Science Quarterly*, Vol. 15, No. 3, Sep. 1970, pp. 295-305.
18. That bargaining of this sort is common among departments I have suggested elsewhere. George Strauss, "Tactics of Lateral Relationship," *Administrative Science Quarterly*, Vol. 7, Sep. 1962. MBO merely formalizes and legitimizes the process. This bargaining should not be confused with unrestricted autonomy. The bargaining occurs within constraints provided by higher management.
19. Strauss, George and Leonard R. Sayles, *Personnel*, 3rd ed., Prentice-Hall, Englewood Cliffs, N.J., 1972, Chap. 7.
20. Rothstein, William G., "Executive Appraisal Programs," *ILR Research*, Vol. 8, No. 2, 1962, p. 17.