6. On calculability

Introduction

From all that we have said so far, it ought to be clear that profits and profitability are important in entrepreneurial firms, but not in quite the way that is usually suggested. The profit motive is present alright, but so too is the work of making a profit. It is the latter which is often given scant regard in the literature both on entrepreneurs and on other kinds of business activities. In a later chapter, we will examine aspects of the work of making profits in relation to the formulation and negotiation of contracts. In this chapter, we focus a little more closely on two features which have cropped up more than once already in our discussion, namely the exercise of cost control and the rooting out and evaluation of viable opportunities. Making profits consists both in the routine management of costs, and the assessment of opportunities. In that sense, these two compose another crucial element in entrepreneurial work.

By way of introduction to this aspect of our general theme, consider the following statement by Herbert Simon. It was offered as a deliberate oversimplification of the nature of economic decision making.

> In the theory of the business firm as it appears in elementary textbooks, a firm managed by an "entrepreneur" aims at maximising its profit, but in such simple circumstances that its computational capacities are not in question. Faced with a cost curve relating dollar expenditures to numbers of widgets produced and a revenue curve relating dollar receipts to numbers of widgets sold, a widget company can control how much it produces (and sells).......We readily deduce

> that the rational entrepreneurpreneur will select the total output quantity that yields the greatest possible difference between total revenue and total cost. Given the cost and revenue curves, anyone schooled in the elements of differential calculus can find this optimal quantity by taking a simple derivative, setting it equal to zero, and solving for the quantity as the dependent variable. (Simon 1981, p. 32)

But, while Simon may well have known that this substantively rational procedure simply could not be adopted in the complex situations in which most real world businessmen find themselves, it appears that many of his colleagues did not. Once when he expressed doubt about the 'veridicality' of the classical theory, a colleague responded, "Well, if they don't act this way now, they will after they have graduated from our school."

For Simon, of course, the point of marking the disjuncture is to enable the substitution of an appropriate procedural rationality (what he calls 'bounded rationality') for the substantive rationality of the classical model. Such a procedural rationality would be oriented towards optimising rather than maximising through a strategy of satisficing (Simon 1945, 1979). As can be seen quite clearly, though, while this might be a more "realistic" account of what actually businessmen are up to, it does not, of itself, tells us very much more about the actual processes by which businessmen reason their way to optimising, satisficing solutions.

In this chapter, we will take up two aspects of these processes as they are revealed by the use of rational calculation in entrepreneurial decision making. These aspects, in fact, strain against one another since they compose the elements of the ambiguity which we found the classical conception of the entrepreur to contain. These elements are, on the one hand, the stress laid on the primacy of capital accounting, the methods and measures by which levels of profitability are estimated; and on the other, the essential and irreducible role ascribed to 'the entrepreneurial eye'; the ineffable, personalised talent successful entrepreneurs have. In our discussion of entrepreneurial work, this duality will be found to be seen and recognised as part and parcel of routine economic reasoning.

In a later chapter, we use a comparison with artistic creativity to bring out the social organisation of entrepreneurial activities. From the point of view being adopted here, artistic creativity can treated as located in a workaday division of labour and thus as someone's routine occupation. In that sense, it will incorporate all sorts of rules of thumb, knacks, short-cuts, local knowledge and skill which enable it to be successful. Exactly the same goes for the entrepreneur. Part of this local knowledge and skill for the businessman is something which we will call "the lore of the numbers".[1] As we shall see, an essential part of this skill and knowledge is the capacity to play off the requirements for representing a set of activities through a system of calculation against the practicalities and obligations involved in performing those activities effectively and efficiently.

The following observation is taken from Ludwig von Mises. It provides a good place to start this discussion.

> Every single step of entrepreneurial activities is subject to scrutiny by monetary calculation. The premeditation of planned action becomes commercial calculation of expected costs and expected proceeds.

> The retrospective establishment of the outcome of past action becomes accounting of profit and loss............Monetary calculation reaches its full perfection in capital accounting. It establishes money process of the available means and confronts this total with the changes brought about by action and by the operation of other factors. This confrontation shows what changes occured in the state of the acting men's affairs and the magnitude of those changes; it makes success and failure, profit and loss ascertainable. (von Mises. 1963, pp. 229 - 30.)

There can be little doubting, at least in von Mises eyes, the importance of monetary calculation for economic and business life. Without it, economic activity would be impossible. Given this importance, we might imagine that the elements used in these calculations, the algorithms and quantities manipulated, would be carefully considered, evaluated and worked out. If we can use an image which is familiarly used in this context, we should suppose that the tools used to fashion successful monetary calculation would be clean, sharp and precisely applied. As we will see, at least in the context of the working business' day to day decison making, this is usually far from the case. Unlike the scenarios set up in the classroom at the business school, here things are much more unpredictable, haphazard and subject to rule of thumb. The most that can be hoped for, and really all that is needed, are a few 'quick and dirty' figures on which to make a judgement. What those figures might be and how they are arrived at is to be the topic of this Chapter.

The disjuncture which we are pointing to is a very familiar one. In a discussion of quantitative practices in ordinary life, Lindsey Churchill (No Date) recounts the following story about the Vietnam war. As we all know, the Vietnam war was the first to be fought in front of the cameras. There was continuous and almost exhaustive coverage of nearly every phase. The army authorities slowly came to realise the importance of television and the mass media more generally as a means of conveying the information which they wanted to give to the US population. Part of this meant that the official figures for dead and wounded had to be at least plausibly related to the pictures which were being sent home by the camera crews. As a consequence, the army authorities issued the instruction that commanders of field battalions should organise body counts of the dead on both sides while the fighting was still in progress. On one occasion, the Information Office announced that a count of 869 enemy bodies had been made, while it was perfectly clear to those in and near the battle zone that many more than that had died. In response to the demand for body counts which could not realistically be carried out, soldiers began to joke about Saigon's request for a WEG or 'wild eyed guess'. The need for 'wild eyed guessing' was a response to the fact that it simply was not possible in the midst of a battle to produce accurate measures or estimates of the figures required. Guessing was all that could be done.

In many ways, the advocacy of monetary calculation as the basis of economic decision making to which von Mises alludes and which Simon suggests is thought to be taught in the Business Schools, presumes the precise computability of values for variables such as possible risk, market share, on costs, levels of demand, pricing, market share, and so on, when in fact the interval and ordinal scales which businessmen use to determine such values perforce permit only wild eyed guestimation.

Saying this, of course, is not to deride the efforts of businessmen to place values upon the variables they seek to assess and control. Rather, we want to point out that placing all the emphasis on the premiss of calculability, of the applicability of systems of accounting and thus of the use of accountant's processes, underplays or even disregards the work which businessmen do to make their activities fit within accountants' terms. This work involves grappling with the sheer practical difficulties of determining which figures are wanted, pulling them out, and then knowing how to manipulate them and assess their product. It is this struggle which we have come to think of as **quotidian computability** and which underpins economic reasoning in daily business life.

What's in a loss?

To indicate the general nature of the phenomenon we have in mind, we will look at the broad features of a very straight forward case. Having picked out the major themes, we will then turn to the specifics of rather more complex cases to locate them in the details of actual decision making. The first example consists of a discussion whether to terminate a contract for a site because it was unprofitable. The extract from the fieldnotes should help understanding the detail of the discussion. At points where we discuss specific components, extracts of a transcript of the meeting will be cited.

> *Swale Dale is the name of a development area in the North East of England. As with a number of development schemes in "depressed regions", it has attracted Central Government and EEC money by putting together an 'integrated package' of industrial and leisure developments. The Recreational and Leisure Officer for the Swale Dale is an old friend of Colin Dunbar's and he invited LTC in to run the units. LTC has two units in the area, the swimming pool at Catterick, which is a relatively small operation, and the Spectrum Centre at Richmond which is a larger leisure and entertainment centre. In the year to date, that is over 3 or 4 accounting periods, Catterick had made £328 profit overall on sales of £6123 while Richmond was runninga loss of £2261 on sales of £19537. The projected profit for Spectrum was £2000, or thereabouts.*
>
> *There are one or two things to keep in mind. The Spectrum Trust is a separate but related body to the Development Authority. The Chairman of the Trust in an influential member of the Authority. The Trust had been running the centre as a potential money earner, providing a cafeteria service and bar. They had, however, found it difficult to operate at a profit and so sought a commercial caterer. Colin had gone in on a 1 year trial basis. This year was to run out next month. During the year, the centre had consistently failed to achieve the level of profits sets and now was actually losing money. There were several reasons for this, or so it was thought. The original managerial staff was weak, consisting of a woman who had been deputy manageress under the previous management. She was promoted to manageress and proved extremely popular locally but operationally inefficient. When she was eventually sacked, there was a hue and cry in the area. Finally Lawrence took her back on in her old job of deputy manageress. The problem was that food costs and labour costs*

were out of control. The day time food operation, which was required by the Trust was simply unprofitable. In addition, the bar prices were artificially low (as they are elsewhere in the region), meaning that bar profits could not offset the losses on food. Two lines had been explored. The first was to cut back on the rent payments to be made to Spectrum Trust, effectively reducing overheads. Colin had been back to re-negotiate the possible contract several times. Each time the Trust had reluctantly agreed. Second, Lawrence had tried to get an experienced manager in place. For a short while (about a week) he had one, but since he had insisted on a management contract, effectively making the manager carry the overheads, this had soon failed. Eventually, a trainee area manager, Claire, was brought in from Head Office. She was living locally during the week and commuting back to Telford when required. She had very little actual experience of "hands on management". Ros Howarth who had become Area Manager when Giles had taken over Concessions was having to supervise her very closely.

What was at issue was relatively clear. Spectrum had been making a large and increasing loss. In addition, it had always been a difficult site. If we think in purely calculative terms, then the decision should have been reasonably easy. The unit by unit system of accounting within LTC will not allow the circulation of profits or the distribution of losses across units. Each unit must make a contribution or face closure. That is a policy which Lawrence has always insisted on no matter which site is under discussion. Given the philosphy, why did it take so long for them to decide to pull out? And why was even that decision not a firm one? On the other hand, there is the apparently brisk, not to say brusque, way that the decision was eventually made. Once they had to come to some determination, there was very little toing and froing. They came right down to it and decided to get out.

<u>LTC Tape 22a Side B</u>

33.	Giles	How much notice would we have to give them to pull out
34.	Colin	3 months
		(4 sec)
35.	Lawrence	What now?
36.	Colin	Yes
37.	Lawrence	Yeah
38.	Colin	That's why I said 3 months.
39.	Lawrence	When the year's up in March
40.	Colin	That's right
		(5 sec)
41.	Giles	End of March. So that's April, May, June. March April May. That's right
42.	Sandy	That is 1st June
43.	Colin	1st June yes
44.	Lawrence	What it doesn't say actually here is that the er the rental for the

		vending machines ceases straight away does it? Actually doesn't even mention the rental
45.	Colin	Yes it does
46.	Sandy	Yes it does but as part of that
47.	Colin	//Part of that agreement
48.	Sandy	Part of this. This is what I was gonna ask Colin. I mean would they
49.	Lawrence	No that has to be from 1st January, has to be from 1st January
50.	Sandy	But will they agree to that without all of this? That they take over all the vending?
51.	Giles	Also they want us to consider a contribution to the vending in the event of their being (liable for the) cost of the Centre Manager
52.	Lawrence	That's Johnson will have put that in
53.	Colin	Johnson put that in I mean that's quite good
54.	Lawrence	That will have to come straight out along with the bars manager
55.	Colin	Mmmm
56.	Sandy	We don't know this man Johnson
57.	Colin	Actually we've got to sit and make this decision now
58.	Sandy	Now
59.	Colin:	'cos we took over on 2nd March
60.	Lawrence	Did we?
61.	Colin	So we've got to make the decision now.
62.	Lawrence	Right. I vote we give three month's notice
		(5 secs)
63.	Giles:	Seconded
64.	Sandy:	Thirded
65.	Colin:	Right

What is at the root of all this , of course, is the complex character of loss making. It is not simply a question of seeing what is 'in the figures' and then working out what should be done. 'What is in the figures' is itself something which has to be worked out. Working that out involves teasing out both the <u>operational complexities</u> of a particular site and the <u>organisational contingencies</u>, the likely knock-on effects within LTC, of the case in hand.

The most obvious feature of the whole of this discussion of Spectrum is the seeming reluctance to take the step of closing the unit. Actually, it would not have been closing the unit. It would really have been not taking up the option of negotiating a contract for the further period. This reluctance is an expression of several features which underlie the decision making in this case.

<u>LTC Tape 22B</u>

1.	Colin.	I mean I only see the one way forward with the contract is that we

find some way of generating sales.

(3 sec)

We're retrenching er We're saying well we've got the bar and we've got the vending so if we can get anything else that'll be good enough. If we don't, the hell with it. That really isn't what the client wants. We'd only give ourselves a bad name and give us hassle an the minute we signed a 5 year contract we're into a contractual situation. At this present moment we're not in a contractual situation mmm

(4 sec)

I think you'd be happy to pull out. I mean I'm err I'm giving a vote to go to come out now I mean I can see me having the same conversation with you every bloody month. I didn't mean I didn't mean to swear abusively I just meant it in (   )

2.	Lawrence	Why not? Swear abusively. Make the most of it.
3.	Colin	Errm
4.	Giles	( )
5.	Colin	Seriously Giles, don't you?
6.	Giles	I think it's it's very marginal, I've said that already. Now whether Carol is capable of doing it I don't know. Whether anybody else being paid £85 per week is is capable of doing it errm. What I do know is that if it is going to run profitably at all I don't accept that we've got to develop sales because that's what apparently everybody's been trying to do for the last year and they haven't done it and that's where we're losing money
7.	Sandy	( ) and that's where we've lost money on every sale ( )
8.	Giles	We've got to pull in our costs. And it's the costs we have got to try and curtail. Now we can do it with labour costs. Ros can do it with food. I'm sure she can. I'm sure Ros has total capability (of getting the right food costs) on function foods. But I go along with what your saying in terms of that there will be very very weak on site management and therefore there will be an awful lot of Ros' time involved and her time // is better used
9.	Colin	And it's not handy. It's not handy. I mean if its a Shrewsbury you know only three quarter of an hour down the road but I mean a two and a half hour journey
10.	Giles:	I mean maybe the answer is is er we turn it round to them. We
11.	Colin:	No I was thinking about that one but who do we turn it round to

Everyone round the table is well aware Giles' feelings. Colin voices them during the discussion and Lawrence sums them up afterwards by saying that Giles "got what he wanted". Similarly, Sandy made it quite clear she thought "too much time had been wasted on Swale Dale". It is Colin and Lawrence who have to be convinced that the "paper losses" at Spectrum really are real losses and that there is nothing left to do but pull out. The £2000 debit does not "speak for itself". What it means organisationally has to be worked out in the course of making a decision in the meeting.

The debit figure of £2000 on the year to date is what we can call an **accountant's object**.

It is the product, artefact even, of a series of accounting procedures.[2] These procedures make up a system of calculation and are designed to give a picture, a representation, of how each of the units is doing.[3] But the picture, the representation, which they give is by no means clear and unambiguous. Its implications are even less so. It is the latter, of course, to which considerable attention wass given. Colin and Giles, as is to be expected, differ over what the underlying reasons are. Colin felt that sales had been sacrificed - there was a turnover of £65,000 which was whittled away, in his view by a combination of poor on site management and central purchasing policy. The latter is a theme which as we have mentioned before, he often returns to. Because of the need to raise profitability, LTC tends to buy lines of stock which are 'down market versions' of branded lines. Thus instead of selling Smirnov vodka or Kit Kat, LTC will allow its units to sell only Popov vodka or Champs, both of which are, in Colin's view, "rubbish". In the arguments he has had over this, he has been unable to pursuade Lawrence that the loss of image outweighs what marginal profit might be made. Ultimately, as we shall see in the next section, the whole issue turns around whether one is prepared to accept that LTC's concessions provide them with a 'a captive market'. Lawrence thinks they do; Colin does not.

Giles, on the other hand, felt that the site should probably never have been taken on in the first place. It was always likely to be impossible to run. Second, in his view the problem could not have been that they were failing to pick up potential sales because they have been trying to promote them the whole time they have been there and have so far failed dismally. The root of the losses must be labour costs. Now, a decision or a settlement of the issue ought to have been easy , given the fact that each unit's labour, food and bar percentages are always provided in any run of figures supplied for a unit. It is what they are supposed to mean which causes the difficulty. These percentages are ratios of costs to sales, and so naturally they increase relatively as sales decline. In Colin's view, if you try to reduce the costs in the face of loss of sales, you only make matters worse. Reducing labour, for instance, is bound to reduce sales since a lower level of service is provided. Reducing food costs means selling products no one wants to buy. In the end, what we have here is a difference of opinion about what to do about the loss. Giles wanted to shrink sales right down to a level which was minimal but at which costs were controlled and profits made. Some expansion might then be possible. Colin wanted to recoup what he saw as lost opportunities.

Both agreed that the unit was making losses and were trying to find ways out of that situtaion. A number of were floated but not taken on board because of the organisational and operational constraints within which the Company operates.

These constraints are located at several different levels. First of all, there was the intractability of the site itself. In everyone's eyes, Lawrence is something close to an operational magician. He could make money out of anything. But even he has had trouble in Swale Dale. Second, there is the local impact of whatever they do. If they retrench and slim down, they will offend both the Trust and the users. If they pull out, there will be a loss of face and they will lose any credibility they might have once had. Third there are the organisational aspects to be borne in mind. If they continue with Swale Dale, in all likelihood it will occupy increasing amounts of executive time and resources. These contingencies are probably more visible for this group than the simple operational, accounting or public relations aspects. Working out a way of satisfying all these constraints was necessary before they could determine what the loss at Spectrum really amounted to.

In the discussion, the Directors had a number of very specfic conditions in mind. These conditions have a direct effect upon the weight to be given to any of the contraints we have just listed. They are, therefore, the local contingencies of calculative representation and interpretation. We will summarise them under a number of heads.

The distribution of control.

No matter how the discussion goes, in the end Lawrence will decide what happens. Everyone else will have a say, and a vote even but if Lawrence decides not to be swayed by them, his will prevails. This autocratic reality is meliorated by the fact that Lawrence finds it very difficult to come to final decisions and rests very heavily on others. As we indicated, even when the final decision is made, Lawrence does not see it as final. Nothing is ever final to him.

<u>LTC Tape 22b</u>

25.	Lawrence	It is exactly the same sort of thing. And actually I'm not sure whether if you are going to go back and do that no guarantee bit
26.	Giles	No No reduce rent by eight grand
27.	Lawrence	Well no rent then // yes no rent
28.	Giles	Yes yes
29.	Lawrence	If you go back and do the no rent bit erm should we not cease the day time cooking operation first?
30.	Colin	Well I'm running out of time and the fact that you're into we're alright I think we've got to the 1st June for actual // contractual terms
31.	Lawrence	No. But we haven't as far as our finances are concerned erm.
32.	Colin	No I meant for. If you want any change. You can do all the changes you like how dramatic you can do them 'cos they're still in this first year plus 3 months of initial contract. Right errm. Test the market all you like and all hell breaks loose. But the minute we agree to 1st June a new contract then we're into the terms we've come to agree

The site's organisational history.

The failure at Spectrum is, ultimately, Lawrence's responsibility. Or, to put is more carefully, it is generally held that his style of management has contributed to things getting the way they have. He has had direct control over Spectrum through Mike Santo the Area Manager. It was Lawrence who selected the General Manager and insisted on the management contract. It was Lawrence who put the trainee in. In addition, there is also the feeling that if he had been able to give his full attention to the site, he would have been able to pull it around. In the post mortem that immediately followed the decision, Colin was very clear that the failure was a management one and not a faulty sales choice.

<u>LTC 22b</u>

13.	Colin:	Now that brings them back to square one. I mean that's the last I mean they'll stand for that I mean I can get them to stand for that but we have to stand up and be counted.

(3 sec)

Mmm we can't go back and say oh we're still achieving fifty one percent food costs and we're losing. Nothing, that's your damn problem. Sorry, I'm putting it in the middle of the table that our damn problem. We're not paying them nothing. They're paying all the bloody overheads. Aah Christ I mean you know we call ourselves caterers and operators we need burning don't we? (   ) sixty five grand worth of

14. Lawrence It's just when you give them your expenses for coming up after the meeting

(General laughter)

15. Colin Yeah. I mean they give us £65,000 worth of business and we can't turn a shilling out of it so

(6 sec)

And I mean you know we achieve it everywhere else why do we make mistakes there.And I'm now putting this in the middle of the table again. Why do we why don't we there wha when where are we going wrong? What's the where's our philosophy wrong?

The place of this decision in a web of decisions.

The recent changes in structure have meant that Giles has taken on Spectrum, which he feels is a white elephant. It will be a blemish on his record as a successful operations manager if it continues as it is. Apart from this, it is understandable that he should not be too keen to have to sort out other people's mistakes.

<u>LTC 22b</u>

6. Giles I think it's it's very marginal, I've said that already. Now whether Carol is capable of doing it I don't know. Whether anybody else being paid £85 per week is is capable of doing it errm. What I do know is that if it is going to run profitably at all I don't accept that we've got to develop sales because that's what apparently everybody's been trying to do for the last year and they haven't done it and that's where we're losing money

7. Sandy (   ) and that's where we've lost money on every sale (   )

8. Giles We've got to pull in our costs. And it's the costs we have got to try and curtail. Now we can do it with labour costs. Ros can do it with food. I'm sure she can. I'm sure Ros has total capability (of getting the right food costs) on function foods. But I go along with what your saying in terms of that there will be very very weak on site management and therefore there will be an awful lot of Ros' time involved and her time // is better used

9. Colin And it's not handy. It's not handy. I mean if its a Shrewsbury you know only 3/4 hour down the road but I mean a 21/2 hour journey

10. Giles: I mean maybe the answer is is er we turn it round to them. We

11. Colin: No I was thinking about that one but who do we turn it round to

12. Giles: No what I mean is we say to them look the fact of the matter is we're gonna have to pull out aah to make anything of these two sites we've

gotta keep a good quality manager in there and it isn't going to work. We can't make money with it um a good quality manager is going to cost us seven and a half thousand a year and we've gotta look to you for that. So we've gotta reduce our costs by seven and a half to eight thousand. If you want us to stay we'll do that we'll be only too happy ( ) seven and a half or eight grand off the rent which just happens to be ( ) then we'll put somebody in knowing full well that it's over the top in terms of labour costs'

The facts of life in the business.

While Colin remains committed to the concept, as he would put it, he is slowly being pushed into an impossible bargaining position with the Trust. He cannot keep going back to re-negotiate. Certainly once the contracts are signed, any re-negotiation will be impossible. Colin sees the likely problem to be Giles' attitude, who will not be happy until the matter is resolved, ie they are out. Because he has less influence with Lawrence than the others (and hence less power) he cannot oppose Giles directly. He would rather suffer the pain of pulling out now than a slow, lingering crucifixion being caught between the Trust on the one hand and Giles on the other.

<u>LTC 22b</u>

30.	Colin	Well I'm running out of time and the fact that you're into we're alright I think we've got to the 1st June for actual // contractual terms
31.	Lawrence	No. But we haven't as far as our finances are concerned erm.
32.	Colin	No I meant for. If you want any change. You can do all the changes you like how dramatic you can do them 'cos they're still in this first year plus 3 months of initial contract. Right errm. Test the market all you like and all hell breaks loose. But the minute we agree to 1st June a new contract then we're into the terms we've come to agree

The accountant's object, the £2000 loss, is, then, a great deal more than a 'bottom line', a mere calculative outcome of a set of procedures. But what exactly it is has to be worked out in the details of specific cases. The figure lies, so to speak, amid a nest of interactional, organisational and operational contingencies and gets its meaning from them. As an object, the loss of £2000 is <u>a collaborative social product.</u> It is arrived at in and through a course of joint business reasoning. In the next section, we will look at the detail of this reasoning and the way that it is shaped by contingencies .

Can I make a living from £80,000?

We have said that the primary difficulty for LTC is to decide which contracts are worth going for. The reason for this is one of the prevailing "facts" of the market place in which they operate. Generally contracts run for 5 years, with the occasional one of 7 or 10 years. This being the case, the Company is nearly always beginning a round of re-negotiations over contracts which are coming to the end of their lives. The proportion of contracts which are renewed is significantly less than 100%, which being pragmatic people, the Directors of LTC take as another fact of life. In some cases, they are only too happy to lose contracts. In others, they are outbid by competitors seeking to break into a market. In others still, the experience of having LTC as the concessionaires may have been somewhat disillusioning for the Local

Authority. Finally, there is the straightforward 'change for change's sake' factor. Some Authorities feel that they ought to try someone else, if only to see what another concessionaire would be like. The same thing, of course, applies to all the other operators. In addition, there is, or was until quite recently, a Local Authority policy of expanding leisure provision and thus creating sites in which LTC could operate. Consequently, there is a constant supply of contracts being offered to tender. These are generally advertised in the trade magazine, *The Caterer*.

The problem appeared, then, as one of fixing priorities. Colin had to rank the contracts which he knew to be available and decide which he really wished to push for. The complicating factor was that none of the contracts he had pursued recently had come to fruition. In addition, some of the existing sites, such as Spectrum at Richmond, were proving to be difficult to run profitably. In the light of this, a special Board Meeting was held to discuss sales strategy. At it were Sandy, Giles, Lawrence at, of course, Colin. The following excerpt from the fieldnotes summarises the outcome.

> *Of the list of other possibilities, Colin selected four which he thought were runners. However, it was not altogether clear why he thought these should be sought in preference to others. Here his overall strategy came under scrutiny. Lawrence proposed that a system of prioritization should be adopted and requested that everyone read Colin's report which had been circulated. This report indicated the outline sales strategy Colin was presently conducting and how it could be expanded. In essence, it proposes a modular approach. They should concentrate on geographical areas in which they already have a strong presence rather than spreading themselves thinly across GB as a whole......*
>
> *.....After some discussion of various measures, they opted for a throughput figure of £80,000 and £15,000 profitability. Since £7,500 of the profit of any site was reserved for "Head Office Overheads", this means that unless a site generates a 'bottom line' of £7,500, they are not interested in trying to tender for it.*

Eventually, then, Colin got himself a formula. The trouble came in actually putting it to use. The figure "£80,000" turover per annum appears to be avery precise base level, even if we allow it to mean "around £80,000", in line with everyday quantificational practices (Churchill, op. cit.). Just what does "around £80,000" actually mean, and how much around does "around" have to be. In other words, how is the formula to be applied in specific cases? What are the determinants of its applicability? And what are the requirements of making it work?

The figure of £80,000 emerged because the Directors had decided upon a prior figure of £15,000 as the minimum first net profit which a site should yield. This figure was arrived at in two ways. First of all, it was large enough to carry Head Office overheads, the £7,500 which it costs on average to administer any site from Telford. Up until that meeting, the notional first net profit had been £10,000, which, of course, yields a second net profit of only £2,500. This was approximately the figure which, had it worked, Spectrum might have been expected to make. However, as Lawrence put it, it simply wasn't worth all the effort of running places like Spectrum for just £2,500. That level of profitability was below their effort threshold. Second, a general minimum of £7,500 second net profit, would yield at least £187,500 as the overall profit for the Division, a much improved figure on that which was currently being made. Simply by rasing the base line of the contracts they were prepared to take on, profitability could be improved.

However, it is not just a question of profits. It is also to do with what sort of business one wants. In general terms, the very small sites are less easy to administer and so require more Head Office time, more supervision, proportionately more visits etc. than is marked by the figure of £7,500. As a consequence, a large number of contracts just above the cut-off might actually mean that it was much harder to make the £187,500 target. Thus it was not only a question of which £80,000 sites were "real" £80,000 sites, i.e. would earn £15,000 profit, but also how easily they would earn it.

Alongside these purely calculative or scaling considerations has to be put another set of complicating contingencies. Some sites are good for the image of the business. Others may not yet be very profitable but could well have potential. Still others have been with LTC right from the start, are well under control, have good managers and while not being spectacular, are worth keeping. Such considerations as these have to be placed alongside the purely calculative balance sheet estimations.

The problem to be solved, then, is to find a formula which can be made to work, which satisfies the requirements both for profitability and for the operational concerns just mentioned, and which, at the same time, spreads the risks which LTC runs.[4] Such risk can never be completely eradicated since, as has been been made clear, LTC operates in an environment of largely unknown and unmeasurable variables. This minimalist strategy has one further facet. The materials on which it has to work must be more or less public. Colin has to know which contracts he wants to go for before he allocates a lot of time and energy to chasing them. However, and this is where the practical difficulties in the operation of the formula come to the fore, it is extremely unlikely that Colin will have the detailed kind of operational information he requires to do the computation for sites that LTC does not currently hold. All he can do is use his experience, the general layout, and one or two leading indicators, to "best guess" what the throughput of users will be and thus what the profit level might be like. The figures which are fed into the formula and on which crucial decisions with regard to contract tendering rely, have, then, a lot in common with the "wild eyed guestimations" we spoke of earlier.

There are several methods availble to Colin for this calculation. Various public documents, such as Local Authority accounts, Sports Council publications and so forth, feature "throughput figures". This measure is one which he is used to interpreting. He has a rule of thumb derived from LTC's current operations which he can apply . If the cafeteria/bar are 'back to back' and in the centre of the facility then multiplying throughput by 0.27p gives a measure of likely turnover. If they are separate, and/or peripheral, then the figure has to be adjusted down. Thus, if a centre has 360,000 users per year and because of the layout of the facility we assume spend per head to be 20p, then we can project a £72,000 turnover, which is below the required rate. On the basis of that projection, Colin could decide not to pursue the contract. The formula seems to make the decision relatively straight forward.

The difficulty is that both elements in this computation are uncertain. Colin can only tell what scalar to use by going to see the facilities themselves. And even then it is a guess based on his experience. Second, the throughput figures are collected by the Centre's staff and are likely to be even wilder eyed guesses than the body counts in Vietnam. They are produced by the Centre staff as a measure of their own effectiveness. As a consequence, they are often inflated by the inclusion of total membership figures for clubs and societies using the facilities rather than actual usage.

A second approach is to use the figures for catering turnover which are published with the tender documents. This does not involve Colin in any work since it is LTC's policy to send for all tender documents before making a decision on whether to proceed. The figure for catering turnover can then be transformed to produce a measure of profit. From its experience in this business, the Company has a series of "target averages" for the costs of various elements. These are: food 32% of sales; liquor 42%; labour 25%; overheads 8%; and rent 12%. 18% of sales is the "target average profit". If it is assumed that the site in question will a site which conforms to the target averages, then a figure for profit can be derived. Providing the 18% of turnover is larger than £15,000, then the contract is worth pursuing. Again a rule of thumb is available. If turnover is greater than £83,000 then it is worth considering making a tender.

The drawback to both formulae can be summarised in the question we asked at the begining of this section. When is £83,000 a real £83,000? How is Colin to determine how close to the notional target average any site is? Here he has to address the operational constraints which make any site unique. Using the global figure we have been discussing, would mean not pursuing Havant, a centre which at present contributes £15,000 on a turnover of £58,000. It would mean accepting Staines which contributes only £14,000 on a turnover of £128,000. The difficulty is in trying to determine what in any specific context £83,000 can be taken to mean and thus when £128,000 is less than £83,000 and when £58,000 is more. This can only be done by treating each site as a 'one off' effectively determined by local considerations. It is these which make the difference. Are the cafeteria and bar back to back, requiring less labour and making shared storage possible? What financial arrangements will the Local Authority want? What utility payments will they cover. But most of all, where is it? Labour and other on costs vary across the country, significantly affecting how close to the average any site might be. Lewes and Telford yield more than £17,000 on turnovers of £90,000 and £74,000 respectively. Swale Dale, as we know, makes a loss on approximately £40,000.

Even with all this in the front of one's mind, there are further complications. As we have mentioned before, the Company's experience has been that where they have been most successful, measured in profitability terms, they have tended to decrease catering turnover not increase it. More efficient management, lower labour costs, restricted menus and so forth mean that they take less money but they hang on to a higher proportion of it. How far away from £83,000 one would have to go before this cost effectiveness failed to yield £15,000, can only be ascertained on a case by case basis, since the variables are strongly responsive to such factors as local facilities and demands, quality of management, and commitment of the Local Authority. At the same time, there is size of the potential market available in each outlet. Both Giles and Colin feel that this market cannot be taken for granted or treated as 'captive' in some sense. Lawrence tends to disagree. Certainly, he is averse to accepting lower than target profitability in the hope of generating sales and thus enlarging throughput through what would be LTC's version of "loss leaders".

The precision of the formula " pursue only contracts with a throughput of £83,000" is, then, misleading. It does not allow realistic choices to be made simply because it is insensitive to the particular features of individual sites. To begin with, it disregards future possibilities. In the case of Spectrum, for example, part of the attraction was the possibility of expanding into Swale Dale. Outliers could be run as subtended operations from the Spectrum Centre and hence contribute to its profitability. Such "contract packages" render the calculations even less precise and make it more difficult to set out criteria for prioritization. How, for instance, do you measure a multi-site operation like, say, Swale Dale against one where £154,000 can be taken in one building?

It is the context of this complex estimation that Colin's question "Can I make a living from £83,000?" begins to make sense. It directs us immediately towards the search for comparable cases where the required level of profit (a living) can be made. The catering turnover is £83,000. Can a living be made from £83,000? The unit at Margate shows that it can. Is the site similar to Margate? Are the bar and cafeteria back to back? What are the opening hours? Who pays the utilities? What are the labour costs? Here the use of target averages can be positively misleading. Purley, for instance, turns over £84,500 but yields a paltry £8,600. The average figure for wages in all units is £15,000. In Purley that would just about cover the Manager's salary. The assessment of profitability has to be carried out, then, on the basis of a notional actual figure, a guess as to how much it will actually take and actually cost to run a site. The trouble is that it is only when a site is on the books and running that you find out just how notional the notional actual figure really was!

The lengthy, tortuous and sometimes heated discussion which the Directors had over the sales strategy reflects the difficulty of finding simple solutions to complicated problems. Raw economic calculation, if we might put it that way, is never merely a matter of running through the computations. It is permeated through and through by qualitative judgements of comparability, normality and possibility which have their logic not in a mathematical model of profitability, no matter how rudimentary, but in the lineaments of experience and judgement. It is more a matter of feeling things out than it is of working them out. Keen has put the whole thing rather neatly.[4]

> ......by focussing on small deviations from the status quo, the decision maker can avoid the need for formal evaluation. By apprehending, trusting his internal, sometimes intuitive sense of things, he can act where he does not comprehend. In general, his conscious strategies and unconscious habits are functional, reducing risk and strain. (Keen 1977, p. 46)

Nonetheless, decisons have to be taken with reference to formal criteria such as measures of profitability, if only as a context of justification rather than decision making. This context of justification is a representation and evaluation of activities, which in this case is couched in the terms set out in the procedures and logic of capital accounting. In the next section, we will look in detail at one case where this justification is deployed. The next chapter will examine the grounds of that justification, the procedures themselves.

Pencil and paper forecasting

Given the emphasis on the interplay between formal and informal aspects of decision making practices and business reasoning, one possible sub-title for this chapter might have been "flying the business by the seat of your pants". No doubt many, and Lawrence would certainly include himself among them, would want to claim that that is the only way in which it can be done. The disjuncture between computability in business practice and formal accounts of computability in Economic theory is one which he recognises and disparages. For Lawrence, estimating costs of supply and levels of demand, and hence profits, is riven with guestimation. And yet, in as much as he makes final decisions at all, he has no qualms at all about about making them on the basis of such guestimates. Here is a snippet from our fieldnotes which makes this very plain. It refers to an informal meeting between Sandy, Giles and Lawrence.

> *As soon as the meeting got underway, Lawrence reported on his negotiations with the Concession's Manager at Swell Belle. She had wanted a presentation at which Lawrence should submit a set of financial summaries and forecasts. To provide this, Lawrence simply ad hoced a set of figures based on what he already had to hand, namely his experience of the business and the figures for Brambles (the restaurant in the shop at the moment) which Swell Belle had given him. In addition to these, Sandy and he had conducted a market research survey by going up and down Oxford Street asking people about the restaurant in Swell Belle. It was not quite clear how the results of this were used. Here is a copy of the handwritten summary.*

P & L PROJNS

Gross Turnover

2000	*3000*	*4000*	*5000*	*6000*	
90434	*135652*	*180869*	*226086*	*271304*	
25	*25*	*24*	*23*	*22*	
33	*33*	*32*	*31*	*30*	
37,982	*56,973*	*79582*	*103999*	*130225*	
\\——-----50,0000——------				*51548*	*rent*
£ 4,000	*4*	*4*	*4*	*4*	*elect*
8	*10*	*12*	*14*	*16*	*R&R*
62	*64*	*66*	*68*	*71548*	
(-24,018)	*(-7027)↕*	*13,582*	*35,999*	*58,677*	
	↕3400				

This summary became the centre of the discussion and the basis for the decision which emerged. It was treated as equivalent, at least for the purposes of this decision, to the measures of profit and the target cost percentages discussed in the previous section. In that sense, it too is an accountant's object. The question we wish to ask concerns not its veridicality, soundness, relationship to the procedures taught in Business Schools and the standard texts, but its organisational grounding and logic. That it is not a formal procedure as, say, a management scientist defines that term is irrelevant just now. It is by means of devices such as these that this entrepreneur in this business makes the decisions he does.

What Lawrence has produced has a given format. It follows the overall shape of a standard profit and loss account. It might be thought of, then, as a heuristic balance sheet. But this balance sheet is put together for a clear purpose. Its format, the left to right, top - down structure is an organisation designed as a calculus. It enables to comparisons of a variety of different possibilities. The difficulty for us, and we may say for those around the table with him, was in seeing how the calculus was used to provide the outcomes it did. How did the device work?. This is an important point, for while it is a readily recognisable format, the actual outcome, its meaning, is determined by the context in which it was put together. If we think of the summary as a schedule for thinking, as a way of finding out what to do using means which are contextually justifiable, and not as a post hoc rationalisation of what has already been decided upon (and certainly not as a representation of how things might really turn out), then we may get a clearer idea of how this mode of reasoning is appled in practise.

In putting the heuristic balance sheet together, Lawrence followed the following steps.

1. Each column represents a level of turnover defined by gross turnover per week.
2. These are transformed into annual turnover exclusive of VAT by being multiplied by 52 x 100/115.
3. From this turnover figure are deducted for labour costs (varying from 25% to 22%) and food (from 33% to 30%). This gives an estimate of first net profit.
4. From first net profit are deducted factors for rent, electricity, repairs and renewals, and sundries. These are then aggregated to give a sub-total for overheads.
5. Taking other overheads from first net profit gives an estimate of second net profit.
6. The "break-even point is interpolated by approximation to be £3400.

This, then, is the overall logic of the format. But what is the 'situational logic', to use another phrase of Melinda Baccus (1986), at work in arriving at these particular elements in the calculus?

The procedure for discounting for VAT is a standardised one and is used throughout LTC. It is, therefore, independent of the particularities of this case. Each of the other computations, though, display an orientation to what we might think of as stepwise interpretation of contingencies. To arrive at the first net profit, Lawrence simply appropriated and transformed a set of notional averages currently being achieved in the rest of the Company's outlets. Obviously this presumption is one which could be challenged, as it was by Giles in the discussion of the figures. Two further interpretive features are at work here. First, in arriving at the relative weightings of food and labour, Lawrence made the assumption that this outlet would be predominantly a beverage concern. Because it was going to sell Cola as its main line (the name for it was to be COLA PLUS) which is sold through bar top dispensers, labour costs would be lower than elsewhere. If it were to turn out to be mainly a food operation, then this would upset the projections. Given the general level of "play" in these figures, though, such a mistake might not be disastrous. Second, Lawrence took £4000 as the 'threshold' at which marginal economies of scale for labour and food would appear and adjusted down the percentages a single percentage point for each level of turnover above this. Once again these are guesses based upon experience and upon what they imagine the outlet will operate like. Since they do not run any other comparable units, there are no direct comparisons to be had.

This procedure of interpretive calculation continues in the estimation of second net profit. The figure for rent was taken to be given since, at the moment at least, Swell Belle are saying it is non-negotiable. Lawrence, however, was fairly certain that if he can sell them the idea for COLA PLUS, then he would be able to whittle that down a little. The figures for repairs and renewals and rent are simply informed guesses, estimations based upon what he knows about the business and expects the unit to be like. That for electricity is particularly interesting since it is a doubling of the average cost for a 'normal' Leisure Centre. Lawrence's justification for this was simply that the outlet would be open to the public almost as long as a Leisure Centre and have more lighting. It was, at best, a "conservative guess", he thought.

The outcome of this interpretive calculation was a "break-even" figure of £3400. At that level, though, it would not make enough profit to make it worthwhile taking on . The tender documentation indicated that the existing unit turned over £3000 per week which if it were taken as a guide , as would be the case in the decision making formula which Colin uses, would mean that the unit was likely to be a loss maker. However, Lawrence refused to use comparisons with the existing unit simply because COLA PLUS was going to be an entirely different concept, aiming at an entirely different market. It is here that the interpretation and application of the figures became crucial. Lawrence was convinced that COLA PLUS is such a different concept that direct comparisons with what was already in place, or with what they are already doing were of little value except for heuristic purposes.

Having done the exercise and worked out the level of throughput needed, Lawrence had to decide whether the product of the calculus was so far away from what was already being achieved that he had little hope of attaining the targets. That is to say, he had to weight the influence of the interpretive factors in the calculus. Given Lawrence's commitment to the project, the conclusion was obvious. He was convinced that with this idea, scond net profit would easily surpass £3400. The context of justification of these projected figures is that of a demonstration of what Lawrence already knows. [5] He knows he can make it work . The heuristic balance sheet P & L PROJNS show why.

Conclusion

What then can we say about calculability at LTC? From the cases which we have examined, it seems that the formal requirements of computability and precision are inextricably bound up with those of interpretation and meaning. This does not mean that everything is haphazard, loose, or 'unbusiness like'. Far from it. Rather precision and computability are contextually defined notions. The requirements for calculation may be relaxed in the light of the importance of local knowledge of interactional, operational and organisational constraints and the sheer impossibility of satisfying any but the least stringent criteria. The use of interpretive calculation relies upon figures for profits, turnover, labour costs and the like, each of which is itself the product of accounting procedures. The use of judgement in the operation of whatever calculi are available is part of the work which successful entrepreneurs engage in. In that sense, LTC's entrepreneurial success depends upon managing the interplay between precision and interpretation in calculation. In the next chapter, we will see how the same duality can be seen in the practical requirements of making the system of calculability, the accounting procedures at LTC, work.

NOTES

[1] To borrow a phrase from Melinda Baccus' (1986) paper.

[2] C.f. Chapter 8.

[3] These are discussed in detail the next Chapter.

[4] C.f. Chapter 6.

[5] For a discussion of the use of a similar strategy in decision making, cf. H. Garfinkel. 'Some rules of correct decision making that jurors respect.' in his (1967)