These different proportions of rate types between open-end companies and other clients, which reflect the different control position of the adviser vis-a-vis these two types of clients, and the differences in the alternatives effectively open to them, suggest the likelihood that effective fee rates charged to open-end clients will be less responsive to variation in asset size than effective rates charged noninvestment company clients. This hypothesis is discussed further and tested below.

Tables VIII–38 and VIII–39 show the effective management fee rates charged open-end companies by investment advisers and investment adviser groups. Investment adviser groups in table VIII–39 differ from advisers in table VIII–38 because closely affiliated advisers, such as Scudder, Stevens & Clark and Scudder, Stevens & Clark, Ltd., are consolidated into single entities in table VIII–39. In the process 12 advisers disappear into larger multiadviser groups subject to common ownership and control.

The fee rates in these tables were computed as follows: In those cases where an adviser or adviser group used a single flat rate for all supervised open-end companies, the effective rate for both was recorded as equal to the stated flat rate. Where a scaled rate was used, it was applied to the December 31, 1960, assets of the system and the resultant "fee" was divided by the asset total. Where the management fee was not solely a function of asset size, as in the five cases where it was computed as a percentage of gross investment income, or where different flat or scaled rates were applicable to different companies, effective rates were computed by dividing the management fees received by the adviser (or group) during 1960, and dividing this by the average of open-end company assets supervised at the beginning and end of 1960.

Tables VIII–38 and VIII–39 show a heavy concentration of effective rates at the 0.5 percent fee level, with 49.4 percent of the advisers at that level and 47.3 percent of the adviser groups. It should also be noted that the departures from the 0.5-percent rate are often rather small.

In the largest size class, Investors Diversified Services and Investors Management Co. were both at or very near 0.5 percent. Continental Research was also close to 0.5 with an effective rate of 0.47 percent. Wellington Management Co. and Lord Abbett, both with effective advisory fee rates of 0.28 percent, were substantially below other advisers in the largest class.[40]

In the next size class, Keystone Custodian Funds was above the typical level with a 0.66-percent rate; National Securities & Research, Television Shares Management, and Eaton & Howard were at the 0.5-percent level; and of the remaining six, four had rates exceeding 0.4; and two, Bullock and Insurance Securities, Inc., were at 0.33 and 0.39 percent respectively.[41]

[40] However, the comparable rate for MIT, the only company in the same size class without an adviser, was 0.13 percent.

[41] It is again worth noting that the one company without an adviser that falls in this size class, Massachusetts Investors Growth Stock Fund, had a management fee rate lower than any advised system in this class, namely, 0.31 percent.

In the $150–$300 million size class there were eight advisers with effective rates of 0.5 percent, one (E. W. Axe) with a higher fee rate, and three with rates lower than 0.5 percent. Of the three with rates below 0.5 percent Van Strum and Towne was insignificantly lower at 0.49, Putnam Management Co., Inc., had a rate of 0.41 percent, and F. Eberstadt & Co. had an effective fee rate of 0.34 percent.[42]

As we move into the smaller size classes the 0.5 percent fee rate remains predominant, but relatively more advisers charge higher rates and some advisers charge very high and very low rates outside the range reached by the larger systems. Among the larger systems there are no rates as high as 0.7 percent [43]; in the classes with $50 million or less assets there are 22 advisers with rates this high. In the larger size classes the lowest rates for advisers is 0.28; in the three smallest classes there are 15 advisers with rates of 0.14 or lower, and six others in the 0.15–0.29 rate class. Of the 15 advisers in the lowest fee rate class, 11 involved cases of waived fees that amounted to effective rates of zero.

For purposes of comparison, fee rates were also calculated for open-end companies without investment advisers, and for "other clients" of investment advisers of open-end companies where they had other clients. For the former, fee rates were calculated by first taking from their 1960 income statements the closest approximation that could be obtained to the sums paid by the investment company for investment advice and for the seven management services supplied in whole or in part by investment advisers for a majority of open-end companies.[44] This sum was then divided by the average of beginning and end of year assets. The fee rates for other clients were computed by taking income from other clients as reported by advisers on their income statements, and dividing this by the net assets reportedly managed for other clients at the end of 1960.

It is readily apparent from an examination of tables VIII–38—VIII–42 that the advisory fee rates paid by companies without advisers and the rates charged other clients are significantly lower than those paid by open-end companies. Of the seven companies without advisers (tables VIII–40 and VIII–41) that had assets of $50 million or more, all had fee rates below 0.5 percent, and five of the seven had rates below 0.3 percent. This is in sharp contrast with the fees charged by the 40 advisers managing open-end assets of $50 million or more, where only 14 had fee rates below 0.5 percent and only 3 had effective rates below 0.3 percent.

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[42] Again, it is interesting to note that the two companies in this class without advisers, both members of the Broad Street group, Broad Street Investing and National Investors Corp., who obtain investment information from a privately owned subsidiary, Union Service Corp., had an advisory fee rate of approximately 0.16 percent, which was substantially lower than that of the lowest adviser rate in this class.

[43] With the possible exception of the E. W. Axe system. This group is included in tables VIII–38 and VIII–39 as having a fee rate between 0.51 and 0.69. However, this only takes into account the management fee paid to the adviser proper. In addition to the fee of 0.55 percent paid to E. W. Axe & Co. a sum equal to 0.2 percent of net assets is paid to Axe Securities Corp., a sales subsidiary under common ownership with E. W. Axe & Co. This additional fee is paid to Axe Securities for its bearing of certain expenses connected with the pricing and sale of shares of the Axe funds. Including the fee paid to this affiliated distributor, the effective management fee rate for the Axe group is approximately 0.75 percent of net assets.

[44] See above, table VIII–34.

TABLE VIII-40.—*Effective management fee rates paid by open-end companies without investment advisers, by size of open-end company assets managed, 1960*

Open-end company assets in millions	Effective rates (percent of net assets)															
	0 to 0.14 percent		0.15 to 0.29 percent		0.3 to 0.49 percent		0.5 percent		0.51 to 0.69 percent		0.7 to 0.99 percent		1 percent and over		Total	
	Number of companies	Percent	Number of companies	Percent	Number of companies	Percent	Number of companies	Percent	Number of companies	Percent	Number of companies	Percent	Number of companies	Percent	Number of companies	Percent
0 and under $1	1	25.0							1	25.0			2	50.0	4	100
$1 and under $10									1	100.0					[illegible]	100
$10 and under $50			1	25.0	2	50.0			1	25.0					4	100
$50 and under $150			2	66.7	1	33.3									3	100
$150 and under $300			2	100.0											2	100
$300 and under $600					1	100.0									1	100
$600 and over	1	100.0													1	100
Total	2	12.5	5	31.3	4	25.0			3	18.8			2	12.5	[1] 16	100

[1] Information was unavailable for 1 company without an adviser.

TABLE VIII-41.—*Effective management fee rates paid by open-end company groups without investment advisers, by size of open-end company assets managed, 1960*

Open-end company assets (in millions)	Effective rates (percent of net assets)														Total	
	0.0 to 0.14 percent		0.15 to 0.29 percent		0.3 to 0.49 percent		0.5 percent		0.51 to 0.69 percent		0.7 to 0.99 percent		1.0 percent and over			
	Number of groups	Percent	Number of groups	Percent	Number of groups	Percent	Number of groups	Percent	Number of groups	Percent	Number of groups	Percent	Number of groups	Percent	Number of groups	Percent
0 and under $1	1	25.0							1	25.0			2	50.0	4	100
$1 and under $10									1	100.0					1	100
$10 and under $50					2	66.7			1	33.3					3	100
$50 and under $150			2	66.7	1	33.3									3	100
$150 and under $300																100
$300 and under $600			1	100.0											1	100
$600 and over			1	100.0											1	100
Total	1	7.7	4	30.8	3	23.1			3	23.1			2	15.4	[1] 13	100

[1] Information was unavailable for 1 company without an adviser.

TABLE VIII-42.—*Effective management fee rates paid by other clients of advisers to open-end investment companies, by size of open-end company assets managed, 1960*

Open-end company assets (in millions)	Effective rates (percent of net assets)														Total	
	0 to 0.14 percent		0.15 to 0.29 percent		0.3 to 0.49 percent		0.5 percent		0.51 to 0.69 percent		0.7 to 0.99 percent		1 percent and over			
	Number of advisers	Percent	Number of advisers	Percent	Number of advisers	Percent	Number of advisers	Percent	Number of advisers	Percent	Number of advisers	Percent	Number of advisers	Percent	Number of adviser	Percent
0 and under $1	1	20.0	2	40.0			1	20.0	1	20.0					5	100
$1 and under $10	1	14.3	1	14.3	1	14.3	2	28.6	2	28.6					7	100
$10 and under $50	1	8.3	2	16.7	6	50.0			2	16.7	1	8.3			12	100
$50 and under $150	1	11.1	4	44.4	3	33.3	1	11.1							9	100
$150 and under $300	4	50.0	3	37.5	1	12.5									8	100
$300 and under $600	4	57.1	2	28.6	1	14.3									7	100
$600 and over	2	33.3	3	50.0	1	16.7									6	100
Total	14	25.9	17	31.5	13	24.1	4	7.4	5	9.3	1	1.9			54	100

It may be observed in table VIII–42 that 44 of 54 advisers with other clients (81.5 percent) had an aggregate "other client" fee rate of under 0.5 percent and 31 or 57.4 percent had fee rates below 0.3 percent. The relationship between fee rates charged by investment advisers to their supervised open-end companies and to their other clients is shown on table VIII–43, where fee rates charged open-end companies are expressed as a percentage of the fee rates charged other clients, for 54 advisers with both types of client. It may be seen from this table that in the case of 24 of the 54 advisers, or 44.5 percent of the total, the fee rate charged open-end companies was two or more times as high as that imposed in the aggregate on other clients. In nine instances the fee rate charged open-end companies was five or more times as high as that charged all other clients. It may be noted in the fifth and sixth columns that even where the open-end company assets managed by the adviser exceeded the total of other client assets, in one case the rates were identical, in 12 instances the rates charged open-end clients were higher, and in only 4 cases were the open-end company rates lower.[45] In 7 of the 12 cases with higher open-end company rates, the rates charged to investment companies were three or more times as high as those charged other clients.

TABLE VIII–43.—*Investment advisory fee rates as a percentage of rates charged to other clients, for open-end company advisers with other clients*

Fee rates for open-end companies as a percentage of fee rates charged other clients	All advisers with other clients		Advisers whose other client assets exceed open-end company assets managed		Advisers whose open-end company assets exceed other client assets managed		Advisers with 100 or more other clients	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
1,000 and over	4	7.4	3	8.1	1	5.9		
500 to 999	5	9.3	3	8.1	2	11.8	2	8.0
300 to 499	7	13.0	3	8.1	4	23.5	3	12.0
200 to 299	8	14.8	8	21.6			6	24.0
175 to 199	5	9.3	4	10.8	1	5.9	3	12.0
150 to 174	10	18.5	8	21.6	2	11.8	8	32.0
135 to 149	2	3.7	1	2.7	1	5.9	2	8.0
115 to 134	4	7.4	3	8.1	1	5.9	1	4.0
101 to 114	1	1.9	1	2.7				
100	1	1.9			1	5.9		
75 to 99	3	5.6			3	17.6		
50 to 74	1	1.9			1	5.9		
Below 50	3	5.6	3	8.1				
Total	54	100.0	37	100.0	17	100.0	25	100.0

A second contrast between tables VIII–40 to VIII–42 (companies without advisers; other clients) and tables VIII–38 and VIII–39 (adviser rates to open-end companies) is the greater variation of fee rates by asset size for companies without advisers and for other clients. Looking at tables VIII–40 and VIII–41 one can see that as we move from the bottom to the top the observations cluster distinctly to the right—which means that fee rates tend to rise as asset size falls and vice versa. The same is true of other client rates in table VIII–42, although the concentration is so heavy throughout in

[45] In 1 of the 4 cases, the adviser manages several hundred million dollars of open-end company assets, and has a single other client. In the 1 case falling in the 50–74 percentage ratio class, the adviser receives a modest advisory fee rate, but a manager-underwriter under common ownership with the adviser commands an additional sponsor's fee of 1 percent of net assets. If we summed the 2 fee rates, the percentage ratio would be well over 100.

the lower rates that this is less discernible without looking at the changes in percentages. In tables VIII–38 and VIII–39, on the other hand, the clustering is around the 0.5 percent rate. It is true that in the very important size classes with assets of $300 million and above there is a distinct tendency for rates to fall below the industry norm. Nevertheless, 3 of the 5 largest systems with advisers, including the largest, are at or near 0.5 percent; the largest system in the second-size class is substantially above 0.5 percent, 3 are at 0.5, and only 2 of the other 6 are below 0.4 percent; and of the 40 advisers in the classes over $50 million, 22 are at 0.5 percent, 4 are above that level, 14 are below that level, and only 3 of the 14 are below 0.3 percent. All in all, the clustering about the 0.5 level is heavy throughout the distribution, and the pattern of rate change with change in asset size observable in the other client and nonadviser distributions is only faintly discernible here.

The sluggishness of fee-rate charges by advisers in response to changes in the asset size of open-end companies is also observable over time. In our earlier questionnaire companies were asked the date at which the fee rate charged them by advisers was last changed. Of the 29 companies with assets exceeding $50 million that were charged a flat rate of 0.5 percent in 1958, in 11 cases the rate had been in effect since before 1945, and in 23 cases the rate had been in effect since 1952 or earlier. Of the 29 companies, 1 had a rate reduction to 0.5 percent between 1952 and 1958, 3 of them came into existence during that period, and the remaining 25 companies maintained unchanging flat rates of 0.5 percent between 1952 and 1958. Of these 25 companies, 17 had asset increases of 100 percent or more during this period; 13 had increases of 200 percent or more, and 6 of the 25 increased their asset size by 500 percent or more, in all cases maintaining a stable fee rate of 0.5 percent of net assets.

In order to test more precisely the hypothesis that open-end company fee rates charged by advisers are not significantly responsive to size changes, the size classes and fee rates for companies and groups were consolidated into 4 size classes with 3 rate levels, and then tested for the significance of the differences in the number of observations in each of the 12 size-and-fee cells. Using the data compiled in tables VIII–38 and VIII–39 for adviser and adviser group fee rates charged open-end companies, it was found that the observed differences in fee rates could be explained by chance with a probability of 0.23 and 0.34, respectively. Using either 0.05 or 0.01 as our critical probability levels, we concluded that our hypothesis that open-end company fee rates charged by advisers are not significantly responsive to changes in asset size is sustained.

The same test was applied to the data relating other client assets to fee rates in table VIII–42. Using the same size classes, but different fee rate classes because of the considerable differences in fee rates charged open-end and other clients, the test for the significance of differences of fee-size groupings yielded a probability value of 0.014. The relationship between aggregate other client assets and fee rates charged other clients is definitely significant at the usual 0.05 critical probability level and comes close to the more stringent 0.01 level.

This test could not be applied to tables VIII–40 and VIII–41 for lack of a sufficient number of observations, but inspection of the tables and the tests just described would appear to justify the conclusion that advisory fee rates charged open-end companies by investment advisers are both significantly higher and significantly less responsive to changes in the volume of assets supervised than is the case with other client assets managed by these advisers or with open-end company assets managed internally by boards of directors or trustees.

D. ADMINISTRATIVE SERVICES AND INVESTMENT PERFORMANCE AS EXPLANATIONS OF ADVISORY FEE RATE DIFFERENTIALS

Variation between open-end company groups managed by investment advisers

It is of course possible that variations in advisory fee rates may be explained by significant differences in services rendered to different clients (and resulting expense variations), or by differences in the quality of performance rendered, which might be reflected in market price differentials. These are the questions to be discussed in this subsection. We consider first the importance of these factors in explaining fee rate differentials between open-end company groups managed by investment advisers.

TABLE VIII-44.—*Fee rates charged and administrative services performed for 232 open-end investment companies by their investment advisers, 1960*

Number of services performed	Fee rates charged (percent of net assets)			Total
	Under 0.5	0.5	Over 0.5	
Under 6	37	40	17	94
6 and under 7	11	28	13	52
7 and over	17	44	25	86
Total	65	112	55	232

In table VIII-44 the 232 open-end companies advised by 163 investment advisers are cross-classified according to number of services paid for and fee rates charged by these advisers. This table indicates that there is a positive relationship between fee rate and services rendered, although it leaves much to be explained by other factors. With fee rates under 0.5 percent, 37 companies were provided with fewer than 6 services and only 17 with 7 or more; whereas for fee rates over 0.5 percent 17 were provided with fewer than 6 services and 25 with 7 or more. This is significant, but it should be noted that if 17 of 40 companies with fee rates over 0.5 percent had relatively sparse provision of administrative services, at least 40 percent of the extreme observations in column 3 cannot be explained by service variations. Furthermore, the concentration of observations in column 2 is inconsistent with the view that service differences can explain adequately fee rate differentials. In each service class (rows) the number of observations increase with increases in fee rates as we move from column 1 to column 2, but clearly they should decrease as we move left to right if fee rates were geared systematically to services rendered.

Among the larger advisers, variations in services rendered explain fee rate variations to a limited extent. The low rate of Wellington Management Co. and the very high rate of Keystone Custodian Funds are explained in part by corresponding variations in services paid for by the adviser.[46] But a significant number of cases of high and inflexible management fee rates cannot be explained at all by substantial services rendered the investment company. The most notable of these among the largest systems are National Securities & Research, Eaton & Howard, Boston Management & Research Co., Hamilton Management Corp., and Distributors Group, Inc. These are the extreme cases; but in fact, of the 22 largest advisers only 4 provide 10 or more management services to at least 1 of their advised open-end companies (Investors Diversified Services, Keystone, Insurance Securities, Inc., and the Parker Corp.).

Another possible explanation of fee rate differentials is the quality of service rendered shareholders of open-end companies by their investment advisers, which we would expect to see reflected in performance. In chapter V we discussed in some detail the question of whether or not fee rate differentials among mutual funds have been significantly related to performance. It was concluded there that—

> there is * * * no relationship, of either a positive or negative kind, between management fee rates and performance measures for any type class of funds, or for any size class within type.

However, since the performance measures took into account the management fee rates charged, it might be argued that while outstanding performance is not regularly associated with high fee rates, our findings are consistent with the hypothesis that higher management fees at least pay for themselves in terms of performance. It is unlikely, though, that our tests were sufficiently precise to discriminate in a period of booming stock prices between performance differences that would correspond to differences of such small order as between management fee rates.

Variations between open-end companies with advisers, and other clients

It is frequently alleged that the lower fee rates charged other clients by advisers of open-end companies reflect higher expenses resulting from a greater number or more costly services rendered to investment companies than to other types of clients. In the return submitted by one large system it was stated that—

> In general, individual accounts require less work than investment companies [companies? or individual shareholder accounts?], which call for many extra administrative details, registrations and reports for regulatory bodies, both Federal and State, an officer organization, correspondence, etc. Individual accounts, on the other hand, vary widely in their requirements, and some, for example, may involve only a periodic review of items.[47]

The main difficulty with this argument is its disregard of the fact that the shareholders of open-end companies do not require individual portfolio attention, as other clients usually do, so that a single quarterly compilation of portfolio holdings, for example, is all that is required for the aggregate of shareholders, whether they be a dozen or a million. This characteristic of investment companies suggests the greater likelihood of the emergence of economics of scale and lower costs with increases in asset size than where clients must be catered to on a more individualized basis.

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[46] Wellington Management Co. pays for between 2 and 3 management services; Keystone Custodian Funds pays for about 14.

[47] It is of interest that the system managed by the quoted adviser has maintained an effective fee rate for open-end company assets managed of approximately 0.5 percent from 1945 when such assets totaled $20.4 million to the end of 1960 when total assets amounted to more than $350 million. The effective rate charged on open end company assets in 1960 was 78 percent higher than that charged by this adviser for other clients, although the number of other clients exceeded 300 and the total assets of other clients were not quite half so large as open-end company assets supervised.

Another major adviser with a large other client business stated that it does not maintain account records "for the specific use of" other clients, but that it "does bear the cost of maintaining detailed individual shareholder's records (including purchase dates, costs, and account balances) for all mutual fund shareholders." However, this same adviser indicates in its other client contract forms that it is responsible for compiling and submitting quarterly appraisals of individual client portfolios and managing each discretionary account. Moreover, although individual mutual fund shareholder records are always maintained by the adviser or one of its agents, such records are frequently kept and used by custodians, registrars, transfer agents, and fiscal agents of the company at an extra charge to the company. For other clients, advisers usually maintain at least sufficient portfolio information for each client to make continuous supervision possible, and some of them perform both administrative and recordkeeping functions for other clients. Many advisers compile and submit quarterly or semiannual portfolio appraisals to each client.[48] It is interesting to note in this connection that only one in four advisers absorbs any part of the costs of printing and sending (as opposed to compiling) reports to stockholders of open-end companies.

From columns 7 and 8 of table VIII-43, we can see that even where there are 100 or more other clients, presumably requiring some degree of individual portfolio attention from the adviser, the tendency for systematically higher advisory fee rates to be charged open-end clients is in no way altered. The same conclusion holds true if we isolate the 14 advisers with other clients who carry out extensive recordkeeping and administration for other clients. In one instance where a major trust company levied an exceptionally low rate on its advised open-end company, the other client rate was substantially higher than that charged the investment company. In this instance the open-end company was supplied with no management services whatsoever by the adviser. In the remaining 13 cases the open-end company rate was 30 or more percent higher, and in 7 cases, 100 or more percent higher than that charged other clients.

This evidence suggests that the lower rates charged other clients have little to do with differences in expenses, which on a priori grounds would seem to favor relatively low and significantly declining rates for open-end companies with increases in asset size. This tentative conclusion is more strongly buttressed in the following section, where an analysis of the income statements of advisers with varying ratios of investment company and other client income points to a systematic tendency for expense-income ratios to rise with increases in the relative importance of other client income. The principal reason for the differences in rates charged open-end companies and other clients appears to be that with the latter group "a normal procedure in negotiating a fee is to arrive at a fixed fee which is mutually acceptable." [49] In the case of fees charged open-end companies, they are

[48] One important and fairly typical adviser reports the following procedures in handling another client account:

"At the inception of a new account, the investment adviser assembles and records in various files all data regarding the portfolio such as holdings of bonds and stock, costs, etc., that the client can furnish. Thereafter, all purchase and sale transactions, stock splits, stock dividends, rights, etc., are recorded and the data is used in connection with portfolio administration * * *. All of the above data is incorporated in an International Business Machine punched card system and portfolios are run off semiannually for clients."

[49] Another adviser states that with respect to other clients, "each account pays a fee which is based on the amount of work expected to be done and which seems fair to the parties. Frequently, fees are revised to reflect changed circumstances."

typically fixed by essentially the same persons who receive the fees, although in theory the fees are established by negotiation between independent representatives of separate legal entities, and approved by democratic vote of the shareholders. This suggests that competitive factors which tend to influence rates charged other clients have not been substantially operative in fixing the advisory fee rates paid by mutual funds.

Variations between open-end companies with and without advisers

The absence of arm's-length bargaining may go far toward explaining the rate differentials between open-end companies and other clients, but this does not explain the lower rates generally charged by management groups controlling open-end companies without advisers. The explanation of these differentials cannot rest on any additional management services provided by advisers since this has already been corrected for in computing rates applicable to companies without advisers.

It is possible that these rate differentials reflect differences in the quality of service input between companies with and without advisers. If so, this should be reflected in a differential level of performance. In order to test for this possibility the 14 companies without advisers among the 156 discussed in chapter II were subjected to special analysis by the same techniques that were applied in chapter V. As compared with funds of comparable type and size the performance differences between the 14 funds without advisers and comparable adviser-managed companies turned out to be insignificant. Six of the fourteen did somewhat better than comparable companies and eight did slightly worse than the average, but comparison of the year-by-year cumulative performance record suggests no significant differences.

A suggestive alternative explanation of these rate differences, but one which would be extremely difficult to test satisfactorily, points to the likelihood of a weakening of managerial responsibility to investment company shareholders and the strengthening of profit-seeking incentives when the officers and directors are simultaneously attached to an external organization with different purposes (and different shareholders). This argument would stress the weakening of the fiduciary relationship between investment company management and shareholders with divided allegiance and external pressures toward profit seeking.

A further factor along the same lines that may be of some importance in explaining these rate differentials is the difficulty of indefinitely increasing salary incomes, but the absence of any conventional limits on dollars paid to an organization in management fees. The management group controlling an external adviser organization may derive income from salaries, and more inconspicuously from the income paid out to "owners" of the adviser. Officers, trustees, and directors of a company without an adviser can obtain advisory fees only in the form of salaries. There is no organizational structure that obscures the size of incomes received by individuals.

Another related hypothesis which has plausibility and some empirical support is to the effect that additional layering of organizations almost invariably involves additional staff and capital that requires compensation. This hypothesis derives both analytical and empirical