UNIVERSAL
LIBRARY

OU_156892

UNIVERSAL
LIBRARY

OSMANIA UNIVERSITY LIBRARY

Call No. 658/S92G Accession No. 35931

Author Stryker, P. and the Editors of Fortune

Title Guide to modern management methods. 1954

This book should be returned on or before the date last marked below.

A GUIDE TO MODERN MANAGEMENT METHODS

A Guide to MODERN MANAGEMENT METHODS

BY *Perrin Stryker*
AND
THE EDITORS OF *Fortune*

McGraw-Hill Book Company, Inc.
NEW YORK TORONTO LONDON

A GUIDE TO MODERN MANAGEMENT METHODS

Copyright, 1954, by Time, Inc. All rights in this book are reserved. It may not be used for dramatic, motion-, or talking-picture purposes without written authorization from the holder of these rights. Nor may the book or parts thereof be reproduced in any manner whatsoever without permission in writing, except in the case of brief quotations embodied in critical articles and reviews. For information, address the McGraw-Hill Book Company, Inc., Trade Department, 330 West 42d Street, New York 36, N.Y.

SECOND PRINTING

Library of Congress Catalog Card Number: 54-9710

Published by the McGraw-Hill Book Company, Inc.
Printed in the United States of America

Preface

IT SHOULD BE SAID at once that this book is a guide to management methods—not the complete and only guide. Its purpose is to show how managements in American corporations have used the battery of techniques which has appeared in the last few years. Some of these techniques may have worked well in one company and poorly in another, so that it is impossible to say that any one technique is good for any particular company. This is a warning, then, to any manager who thinks this book is a collection of clear and easy answers to management problems. Such answers do not exist anywhere in industry today. But the executive who studies the cases, examples, and experiences reported in this book—and then thinks about their application to his own company—should be a wiser manager when he is through reading.

All the articles in this book were written for *Fortune* over the years since 1949, and it might appear that much of the material is out of date. This is not so; despite the spread of management methods in recent years, the material in these articles remains surprisingly undated. This is not owing to any omniscience on the part of the editors of *Fortune*. It is simply that management is still working on and expanding most of the techniques it has developed—or that have been offered to industry—during and after World War II. However, there have been some significant shifts of opinion about some of these methods, particularly about executive development.

After the first explorations and experiments with executive development programs, some executives and training men have become skeptical, and a few are now questioning the need or desirability of formal training programs. Thus, for instance, at the Ford Motor Company, training has returned to the fundamental technique of insisting that a young man make good on a job before even considering him as future executive timber. Other companies, like United Parcel, are questioning whether a real management shortage exists, for they have found there is plenty of good managerial material in the middle and lower ranks that can be developed right on the job.

Similarly, some executives are growing skeptical of the heavy emphasis placed on "human relations" in management, an emphasis which the Harvard Business School first introduced in 1935. Almost any executive will now concede that a successful manager may avoid trouble by personal skill in getting along with people. But it is also true that a great many excellent executive qualities may be developed by the frictions which a manager both causes and suffers in working with others. Some executives are having second thoughts about the desirability of "group harmony" in management through the use of committees and conferences. And there are other assumptions about executive development which some managers are beginning to question—the fact that college education, for example, is necessary for executive success.

There will almost certainly be many more revisions in the attitudes of businessmen toward the use of new management methods. But these are not likely to change radically the basic facts about such methods which so many managements have discovered in the last few years. And it is with these facts that this book is primarily concerned.

Almost any executive knows that there is little or no order in the way management methods have been adopted. Nevertheless, the methods described in this book are presented in a plausible se-

quence. The book begins with the big problem of executive development, not only because this technique is absorbing more and more of management's time, but because presumably most aspiring executives are interested in their own development. The chapter on psychological counseling follows logically, since an executive is likely to run into this himself during a training program, or perhaps be tempted to try psychological tests on his subordinates. And since he is now likely to be held responsible for the development of those reporting to him, the problems of training are presented next. As his own development takes place, he will need to know a good deal about management's internal workings; indeed, his own future in the company will usually depend on such understanding. Therefore, the following chapters examine the ways and means and the hazards and virtues of organization planning and control.

The succeeding chapters deal with most of those major management problems involving people—the complex of problems that surround the techniques of communications and industrial relations. Once an executive has mastered these, he will probably be high enough in management ranks to begin worrying about what taxes and inflation have done to his compensation, and he may also have become restless and begun searching for a better job. Separate chapters are, therefore, devoted to executive compensation and the trying process of getting an executive job in another concern. In the last two chapters, the questions about executive retirement and the questions about the retirement of employees are treated separately, for they are distinctly different questions that call for different methods.

For the working executive, perhaps the most interesting aspect of this book will be the specific case histories of corporate experience with management methods and the fact that these cases are identified with actual companies. Too many of the books and articles written about management in recent years have shrouded the identity of the companies involved. The reason for this, of course, is

that few managements care to have an unvarnished report of their experiences spread before the public and their competitors. However, we are convinced that the understanding of any management method is enormously improved if the identity of the company practicing it is known. A description of the practice of "a large electrical manufacturer," for instance, may gain significant and useful dimensions if the reader knows he is learning about General Electric, and not Westinghouse—or vice versa. Here and there in this book we have had to disguise corporate identities in order to report a particular experience, but the company or executive concerned is named wherever possible. In addition to heightening the reader's interest and understanding, the use of actual names provides him with specific sources for further inquiry.

The editors of *Fortune*, including the writer, make no pretense at being experts in management methods. Their prime job is to report what companies have experienced with such methods, and on the basis of this evidence to make such observations as will help readers to sharpen their own perspectives on management problems. If this book achieves that for the reader who is seriously seeking to understand the process of modern management, we trust he will have got his money's worth.

Perrin Stryker

Contents

Preface v

EXECUTIVE DEVELOPMENT

ONE The Management of Men 3
TWO Bringing Up the Boss 18
THREE Can Executives Be Taught to Think? 34

PSYCHOLOGICAL COUNSELING

FOUR The Tests of Management 57

TRAINING

FIVE Training Manpower 77

ORGANIZING, PLANNING, AND CONTROL

SIX P & C for Profit 93
SEVEN Can Management Be Managed? 108

MANAGEMENT COUNSEL

EIGHT What's Your Problem? 129

COMMUNICATIONS

NINE How to Play the House Organ 145
TEN Money in the Wastebasket 162
ELEVEN A Slight Case of Overcommunication 177

PARTICIPATION

TWELVE Labor Relations at Work 189
THIRTEEN The Pitfalls of Profit Sharing 214

EXECUTIVE COMPENSATION

FOURTEEN How to Pay Executives 231
FIFTEEN How Executives Get Jobs 249

RETIREMENT

SIXTEEN How to Retire Executives 267
SEVENTEEN When Should Workers Retire? 285

Index 301

EXECUTIVE DEVELOPMENT

No problem has claimed so much attention from management —or raised so many questions—as the problem of training men to become good managers. Only a few years ago most executives assumed that individual initiative and the competition for jobs were enough to provide the kind and quantity of managers industry needed. Today, "executive development" is an established policy in thousands of companies, and is earnestly practiced by many. But it is a difficult and tricky practice, and would-be executives have had to learn many hard lessons. The hardest lessons are described in the first three chapters of this book: the need for emotional reeducation; the uses and dangers of formal training programs; and, most difficult of all, the job of trying to improve the mental powers of managers whose boners may cause industry's greatest losses.

ONE

The Management of Men

WHILE THE INDUSTRIAL MILLENNIUM is certainly nowhere in sight, there are today many remarkable signs that both labor and management have learned much about industrial relations since the days of their early struggles. For one thing a great many businessmen and labor leaders have shown a sincere desire to achieve a real and profitable understanding. Evidence of this has come, for example, from Henry Ford II, whose grandfather's labor policies created some of the bitterest relations in U.S. industry. When young Henry was cited in 1948 by the National Conference of Christians and Jews for his "contributions to the cause of brotherhood and understanding among men," he replied, "The first requirement of good human relations is to *want* good relations."

There never has been so much fundamental research into the basic problems of human relationships in industry. Since 1943, for instance, hundreds of top executives have taken thirteen weeks out of their business lives to study management practices at Harvard University, with heavy emphasis on industrial relations. In other universities similar courses are offered, and intensive research plus field work is now under way that may in time alter a lot of old management-employee relationships. Much of this research is as yet inconclusive, but one important basic conclusion may be stated with assurance: management and labor alike must first learn that there are no easy answers, no pat formulas, to solve their complex and common problems in human relations. Only the slow process of education and primarily a reeducation of their emotions can do that.

This process, however slow, is making some progress. Management and labor are learning how to live together, and they are achieving good industrial relations in many different ways. Some, like Forstmann Woolen and Studebaker, are cooperating with unions; others, like Eastman Kodak and Thompson Products, are succeeding without unions. There is no one right way, but if a union is present management must answer what Forstmann's industrial-relations chief, Vice President Glenn Gardiner, has called "the $64 question": Will management fight the union, tolerate it, or cooperate with it?

Today the answers to this question roughly divide all U.S. industrial-relations policies into three categories. These categories are defined by one personnel man as "the ostrich type" (which ignores the dangers of dissatisfaction on the part of labor); "the sleeping-dog type" (which hopes that problems won't arise—and won't bite if they do); and "the chanticleer type" (which speaks out on all troublesome issues in a clear voice). Judging from the record, the chanticleers appear to have had the most success; and certainly more and more executives are publicly stating that unions are "here to stay," and that management should learn to work with them.

The basic problem in industrial relations appears to be that of reconciling the divergent aims of two groups: management, which wants efficient production and good profits, and the workers, who want economic security and satisfaction in their jobs. While these aims certainly exist, the problem cannot be stated so simply, primarily because of the attitudes and emotions involved. Members of management, to cite only one contradiction, are at once managers and workers impelled toward security and job satisfaction. And then both groups are subject to forces beyond their control, such as supply and demand, government policies, and competition.

Indeed, the difficulties in industrial relations embrace all the

factors to be found in the structure of society itself, psychological and sociological as well as economic and political. By the time all those difficulties are understood, let alone overcome, the present state of industrial relations may be all but forgotten. For though the concept of such relations is as old as that of master and slave, it has been an acute social concern for only a little over one hundred years.

One of the first to express concern was the English manufacturer Robert Owen, a socialist reformer, who early in the nineteenth century advised his colleagues that proper care of their "living machinery" would return 100 per cent on the capital expended on them. His own experiments had shown him that just as inanimate machines were improved by good treatment, so "the more delicate, complex, living mechanism would be equally improved by being trained to strength and activity; and that it would also prove true economy to keep it neat and clean; to treat it with kindness, that its mental movements might not experience too much irritating friction; to endeavor by every means to make it more perfect; to supply it regularly with a sufficient quantity of wholesome food and other necessities of life, that the body might be preserved in good working condition, and prevented from being out of repair, or falling prematurely to decay. . . ."

This mechanistic view of the worker has not vanished by any means. Some executives still believe that if management would give as much thought and care to employees as it does to machinery, there would be few industrial-relations problems. However, with the rise of nineteenth-century humanitarianism, this coldly efficient view of industrial relations as a rule was superseded by the paternal outlook in which management treated the corporate group as "one big family." Paternalism in one form or other continued to flourish right up through the twenties, as management, assuming the role of the benevolent father, sought to furnish the things it thought employees wanted.

In "progressive" companies paternalism was manifested in the establishment of pensions, group life insurance, and stock-ownership plans. These were all offered in addition to such basic things as better working quarters and clean washrooms. All these things were good, and indeed many of those benefits are now commonly taken for granted. But paternalism failed to meet the worker's greatest need—job security. And when the depression struck bottom in the thirties, organized labor for the first time turned to the government for the security it wanted against joblessness.

The result is New Deal history—a succession of laws, strikes, and court decisions that made labor-management relations the prime issue in American life. By the time World War II arrived, a new species of executive—the industrial-relations director—was well established in the high councils of business. As a glorified personnel manager earning perhaps $25,000 a year, his specialty was dealing with unions, but he also advised management on policies and moves likely to affect employees. During the war, when industrial violence abated, he sometimes was able to apply new personnel practices with great success. For example, a young industrial-relations officer, Fred Fischer, helped guide the Douglas Aircraft Co. and its unions through five years of production stress without a work stoppage. He achieved harmony not with formulas but with a flexible and eminently practical approach ("What works this week may not work next"). But his prime achievement was in gaining a reputation for absolute honesty with unions. When he left Douglas to handle Macy's labor relations, all the unions he had dealt with gave him a farewell banquet.

In general, however, progress in personnel practice is still slow. A major reason is that most company policies are largely set by elder members of management whose conservative ideas about employees were formed in the heyday of paternalism. Too many companies continue to rely solely on a formal statement of policy and

letters written by the president. However, as one veteran personnel director points out, specific written policies can be the key to good relations *if* management will back them up. His own company's eleven-page policy leaflet serves largely as his personnel bible.

But all too often management's pronouncements to employees are empty generalities that may even be offensive. A "Welcome to the Team" letter to the employees of a California engineering firm, for example, is replete with warning quotations from William James (on forming good habits), St. Luke (on doctoring the healthy), John Stuart Mill (on doing other people's work), Plato (on warping the soul through the wrong kind of work), and Thomas à Kempis (on overcoming small things). The forceful sermonizing in this message can leave no doubt in the employee's mind about management's attitude. For instance: "The sure way, the only way, to stop the mediocre work of undisciplined men, is never to let it get by. Never. Not once."

In most cases, however, management's attitude remains buried under the trappings of administrative detail. A list of the duties and departments of the personnel officer of a large company may now cover several pages and include perhaps 100 functions. In a typical organization chart these will be neatly boxed off under such separate headings as employment, training, research, job analysis, labor relations, grievances, medical, employee services, health and safety. Newer personnel functions, like hospitalization and insurance, show signs of becoming nearly as common as the annual company picnic. Theoretically, all these operations contribute to the improvement of relations between management and employees. In practice, few of them seem to have done so.

A great many of these staff operations are still handled as mechanically as any line operation. In large companies especially, they are simply devices for admitting, dropping, checking, sorting, shifting, paying, and protecting personnel; in small companies, where little of this personnel machinery exists, employees may be handled

with even more peremptory efficiency. The result is that personnel departments in general, despite the current variety of their services, have tended to perpetuate the old, cold techniques of "scientific" management, whose apostles were the "efficiency experts" of the twenties.

It is no easy matter to endow personnel methods with human warmth. In 1945 the Ford company began trying to achieve this through a "human engineering" program at all plants. It did not succeed completely, partly because Ford's industrial-relations staff had made a psychological error in adopting the phrase "human engineering." This may seem like a small point, but some personnel men now believe that the chill implications in these words alone may well have impeded Ford's efforts to win its employees' confidence. It is precisely on subtle details of this kind that good relations are delicately balanced.

Many personnel men are now acutely aware of this, and those whose functions are severely restricted by old paternalistic notions may grow bitter. One personnel man said that backward policies that weakened company morale reminded him of an old Turkish proverb: "A dying fish stinks first at the head." Here and there, however, personnel policies have been transformed not only by the rise of young, unpaternalistic executives to top management posts but also by management's experience during the war.

The need for labor's cooperation on war production resulted in an unprecedented pooling of personnel ideas. Incorporated in a "Job Relations Training" program, these concepts helped to change a lot of management thinking about industrial relations. The basic lesson was that cooperation between the worker and management was essentially a problem in *human* relations, that all working people must be treated as individuals—without by-passing the union, if one existed. It was up to management to discover how to do this, but the J.R.T. program supplied many simple and obvious pieces of advice to guide supervisors; for instance, "Let each worker

know how he is getting along"; "Give him credit when due"; "Tell people in advance about changes that will affect them"; "Make the best use of each person's ability."

The war also taught many companies the critical importance of having supervisors that could get along with their men. As the front line of management, a poor foreman can defeat any efforts toward developing good relations in a plant. It required more than training courses to develop good foremen; the job itself had to be improved, its authority greatly clarified and strengthened, if necessary returning to the foreman the right to hire and fire he had in the days of small shops. Along with these measures, the formation of some 5,000 wartime labor-management committees to speed production gave each side a close-up of the other's difficulties. Most of these committees disbanded when their patriotic motivation disappeared, but some are still at work on peacetime production schedules.

Out of all this practical experience in industrial relations there has emerged one inescapable truth: the difficulties between labor and management are, to a very great extent, due to the failures of each side to communicate effectively with the other. As one prominent personnel executive puts it: "Talk about your iron curtains in Europe; American business is hung with them from top to bottom."

This condition, broadly speaking, results from the failure to transmit attitudes as well as ideas up and down the line. On its part top management has commonly failed to convince those on lower levels that their ideas are actually essential to the business. Often it has handed down its decisions without any forewarning or consultation, and has usually ignored or silenced criticism from those down the line. These habits have in turn been the cue for subordinate managers to do likewise, each keeping a jealous eye on his department. As for the employee, he has too long assumed that any really useful suggestions, ideas, and criticisms he might communicate up the line would be ignored, or die somewhere in the

files, or, by treading on someone's toes, jeopardize his relations with management even to the extent of costing him his job.

In short, poor communication is basically the result of a lack of mutual confidence between management and labor. This occurs on all levels, between sections, departments, divisions, foremen, managers, executives. It can and does exist almost regardless of the number of memoranda, house organs, bulletin boards, and conferences. These may help, but good communications are possible only when there is mutual understanding—and trust—over a two-way circuit. As a good many managements now realize, giving orders or instruction or information is not communication.

One simple way of improving intracompany communication has been to reduce and straighten its channels. When International Business Machines began expanding in 1940, it cut the number of intermediate levels between top management and its workers from four to two, and after 1946 Ford eliminated five similar supervisory positions. Companies attacking this problem, however, have often concentrated on what is believed to be perhaps the biggest single communications block: the individual foreman or first-line supervisor.

Thus Ford, after its foremen struck in 1947, withdrew recognition of their union and instituted a Management Relations Program aimed to make them better managers. Their status was clarified by making them salaried, not clock-punching, personnel; and by giving them identity cards (instead of badges), a separate parking place for their cars, a new work coat (which they designed) clearly labeled "Supervisor." The men now are kept informed of management attitudes through a management newsletter and every month they discuss personnel, production, and cost details jointly with higher management. At the same time Ford's personnel chief, John S. Bugas, aims to create cooperative foremen who will encourage workers to communicate their dissatisfactions and constructive suggestions up the line.

A somewhat different approach to the communications problem has been adopted by General Electric, whose personnel program has been revamped by a former sales expert, Lemuel R. Boulware. Boulware first tried to uncover, through polls and questionnaires, all the things that G.E.'s people wanted in their jobs and those they didn't like about the company. From what he found out he constructed a "G.E. 9-Point Job" package to be "sold" to the employees. Sales methods included frequent and extensive editorials in leaflets and newspapers addressed to the community as well as the employee. These discussed G.E.'s plans, finances, aims, policies, etc., with a frankness not customarily found in the management handout, and reflected former President C. E. Wilson's earnest desire to "put the human considerations first." To establish a closer personal tie between management and the employees, Boulware has also concentrated on G.E.'s 15,000 foremen, nearly all of whom now supervise less than twenty-five men.

While most managements today prefer to rely on their foremen to improve communications with the workers, many have found union officers and stewards also useful in passing information up and down the line. A good example of down-line communications occurred a few years ago in a textile company which proposed to install new machines that would replace 130 of its most skilled personnel. The management knew it would take a year to secure delivery of all the machines, but as soon as they were ordered the union officers were called in and given the complete details, including delivery dates, number of people involved, and the promise that the seniority of those replaced would be protected. As the machines arrived, each worker in seniority order was to be given her choice of any existing openings; or she could keep her old job and wait until a suitable one did appear. The union passed the word along, and the company also called workers and stewards together for conferences on the subject. Result: all transfers completed to everyone's satisfaction.

Communications up the line through the union now follow well-established grievance procedures in most companies. A few companies even rely almost completely on union channels to pass up employee dissatisfactions. This has come about at the Crown-Zellerbach Corp. where management-union dealings have at times reached an almost idyllic state. Less idyllic but realistically impressive has been the degree of cooperation at Libbey-Owens-Ford plants. Here management not only has passed information through the union to its employees but has also discussed with the union its production-planning and competitive problems. These instances of labor-management cooperation are by no means unique. A survey made by the American Management Association for a report on cooperation uncovered 228 companies—85 per cent of them wholly or partly unionized—that were using departmental or plant-wide meetings in solving various problems.

So far, labor's potential contributions to industrial efficiency have been most strikingly illustrated where cooperation has been replaced by actual participation in the business. The expert in this field is Joseph Scanlon, former research director of the steelworkers' union, who is now on the industrial-relations faculty at Massachusetts Institute of Technology. Scanlon has helped many small companies step up production and profits by organizing union-management committees, and he has worked out participating, profit-sharing plans with many Massachusetts manufacturing companies. His system, however, has succeeded most often where the company is in serious trouble, industrial relations have struck bottom—and management has been willing to relinquish many of its "prerogatives."

Sooner or later, all overambitious industrial-relations programs come up against the problem of management rights. Even executives who encourage employee cooperation generally harbor an anxiety as to how far they can go in sharing management authority with labor. All too often they have found unions asking for controls

—such as inflexible seniority privileges—that could restrict management's ability to keep the company going against tough competition.

Yet management has sometimes made the mistake of insisting on authority where no authority existed. A serious student of authority, Chester I. Barnard, former president of the Rockefeller Foundation (and formerly president of the New Jersey Bell Telephone Co.), has pointed out what every student of politics knows: that authority actually rests with those to whom orders are given. If the orders are not accepted, no true authority will exist. According to Mr. Barnard, from the employee's viewpoint the acceptance of authority requires that four conditions be fulfilled: (1) he must understand the communication; (2) be able physically and mentally to comply with it; and (3) "at the time of his decision" believe it to be consistent with the company's purpose and (4) "compatible with his personal interests as a whole."

It is the absence of this last condition that creates most of the employee's industrial-relations difficulties. Orders he believes to be against his first interest, economic security, are naturally the most unacceptable. And those that interfere with his personal comforts may be rejected violently. In a large plant, for example, a superintendent abruptly prohibited smoking, a privilege the men had only just been granted. A strike was threatened, and the head office had the wisdom not to countermand the order directly but to convince the superintendent of his error.

Equally unacceptable are orders that obstruct the employee's subjective interests, particularly his desire for satisfaction in his job. The lack of job satisfaction for the individual has for years been cited as a humiliating result of mass-production industries. In 1936 the plight of the assembly-line worker who is transformed into a neurotic automaton by the monotony of his job was dramatized by Charles Chaplin in *Modern Times*. The interesting thing

is that the theme of this film—hailed by the critics as a mirror of our industrial society—was already out of date so far as the knowledge of industrial relations was concerned. Long before *Modern Times* was produced, research on fatigue and monotony in industry had shown these to be only infrequently the true causes of dissatisfaction. Many workers, it was found, prefer simple repetitious operations.

This does not mean that many assembly-line employees would not appreciate a system which would give them a more satisfying feeling that they had a real function in the whole industrial process. But the major sources of most workers' dissatisfactions lie far beyond the irritations created by any particular job. Unfortunately, the practice of industrial relations today has not by any means caught up with all the research that has been done on the subject.

At least a dozen U.S. universities * are now concentrating on the problems of labor and management in an effort to determine the sociological, psychological, and economic bases of their relationship. Of these studies, the oldest and most practically productive to date have been those conducted by Professor Elton Mayo and his associates at Harvard's School of Business Administration. Their experiments in cooperation with the Western Electric Co. at its Hawthorne Works near Chicago from 1927 to 1932 started a whole new line of thinking about industrial relations. A full report on this research has been available since 1939,† but the work of Mayo's group is still largely unknown to many businessmen.

This group made the remarkable discovery that the employee yearns above all to feel psychologically secure within the social group in which he works. Neither good working conditions nor good pay appears to be so important to him as this security. Further-

* Among them California, Chicago, Cornell, Harvard, Illinois, M.I.T., Michigan, Princeton, Yale.

† *Management and the Worker*, by Professor F. J. Roethlisberger and W. J. Dickson, Western Electric's chief of counseling and research.

more, individual incentive to surpass one's fellow workers is very rare and is heavily discouraged by ostracism. These significant findings emerged as the unexpected results of "nondirective" interviewing in which the interviewer, without asking direct questions, skillfully evoked the employee's thoughts and feelings. This process helped reveal and relieve the tensions and concerns of the workers.

Since then, many other companies have undertaken "counseling," but W.E.'s system, established permanently at Hawthorne in 1936, remains uniquely successful chiefly because of its completely confidential nature. Only the counselors and a few staff sociologists know what the interviews contain, and the counselor alone knows the identity of the employees involved. Though W.E.'s operating management never sees any of this material, it may consult generalized studies regarding personnel adjustment, *e.g.*, employee reactions to policy changes, and thereby improve its understanding of W.E.'s human relations. No direct action, however, is ever taken as a result of complaints voiced by those interviewed.

Another tangible and very promising result of the Harvard studies has been the series of advanced management courses given at the Business School for top executives. These three-month courses have been conducted since 1943, and are attended by presidents, vice presidents, a wide assortment of top managers, superintendents, engineers, treasurers, Army, Air Force, and Navy brass, as well as by industrial-relations and personnel directors. In these courses, perhaps the most effective and lasting work is done in classes using the case method. There executives fresh from the field re-form and reexamine their own attitudes on industrial relations by discussing and mulling over actual examples of executive and employee behavior. The professor says almost nothing, and no "principles" are laid down—the word is abhorrent to the faculty, which contends that it still knows little about industrial relations.

By the end of the course, however, the student executives may

have radically revised any glib ideas they might have had about handling other human beings. And as a result of these discussions, their emotional attitudes are apt to mature markedly. They begin to see and correct their own shortcomings, such as childish anger in the face of obstacles, tendencies to judge on appearances alone, and inability to take personal criticism. Some of the lessons they learn may appear elementary; one graduate proudly reported to Professor Roethlisberger that, on the verge of bawling out a subordinate, he remembered his classroom discussion and kept his temper by the simple device of counting to ten—and then asking for an explanation of the situation. Others frequently emerge from this course with their attitudes so different that they seem "changed" men.

The problem of management attitudes remains one of the least explored areas in industrial relations, mainly because few executives are willing to discuss their shortcomings. According to Harvard's Professor B. M. Selekman, an expert in labor-management arbitration, "There is a certain element of neuroticism in all leadership, and the difficult thing is to determine how much of this can be eliminated without impairing the executive's drive to get things done."

At other universities, industrial-relations studies have sought more tangible objectives. For example, Professors Paul Pigors and Charles A. Myers of M.I.T. have written a 539-page textbook, *Personnel Administration*, which is replete with definite advice, case histories, and "principles." And at Yale's Labor and Management Center, Dr. E. Wight Bakke and his staff have developed a concept of the "structure of living" that influences behavior. It has six major elements: goals, personal equipment and character, social resources and framework, natural environment, routine behavior, reinforcement. Bakke conceives of every company or union as a group of cells functioning together as a unit, and calls actions taken by

management and labor "adaptive behavior," that is, an effort to reestablish equilibrium after it has been upset by some inadequacy in the "structure of living."

Yet, as both labor and management are slowly learning, good relations are not learned from books or made by laws, but grow out of individual attitudes and understanding. If either of these is narrow, friction is inevitable. If they are broad, the *chances* of achieving good relations are greatly increased but, unfortunately, not assured. For there are too many psychological and sociological pressures working against industrial harmony that are beyond the control of any individuals or groups.

Investigation of the effects of such pressures has, from the standpoint of industrial history, scarcely begun, and present conclusions are as varied as they are broad. It may be true, as Elton Mayo and others insist, that modern industrial society is suffering from "anomie." By this they mean that man today grows up without being sure of his role in society. And it is plain that while concentrating on technical skills, man has failed to develop his social skills, particularly his ability to secure the cooperation of others. Whatever the diagnosis, no treatment will be effective without changes within man himself, achieved through the civilizing process of emotional reeducation.

TWO

Bringing Up the Boss

IF A BOOK ENTITLED *The Growth and Development of Executives* had appeared in the early thirties, most American businessmen probably would have assumed it to be the care-free work of Robert Benchley. But it is doubtful if many executives so much as cracked a smile in 1950 when they saw that dead-pan title on Harvard Professor Myles L. Mace's study of top management.* By the time Mace's book appeared, "executive development" had become a deeply disturbing and controversial matter. For hundreds of companies (whether all of them know it or not) such development has become a critical necessity. And it seems entirely likely to become common practice throughout U.S. industry.

The fact is that a good many companies, large and small, now realize that it is as necessary to *develop* the executive talents of middle and top management as it is to train the skills of workers and foremen. In some companies, such as Sears, Roebuck, Bigelow-Sanford, and subsidiaries of Standard Oil (N.J.), management has plunged into elaborate programs for developing executives up to and often including vice presidents. And Standard Oil's directors have gone so far as to systematize the "development" of the presidents of all its subsidiaries. Other companies, such as Johnson & Johnson and Marshall Field, have less formal programs, while many more are confining their efforts to recruiting potential executives from college campuses.

* *The Growth and Development of Executives,* published by the Division of Research, Graduate School of Business Administration, Harvard.

The higher development of incumbent executives has cropped up in some odd places. Astonishing as it may seem, Montgomery Ward's autocratic chairman, Sewell Avery, once ardently supported an ambitious executive-development program. (It was sharply curtailed after a mass departure of officers.) Probably the loudest objections to executive development come from managements that have not tried it. The main criticism is that executive ability cannot even be defined, much less evaluated. It is true, of course, that no clear line can be drawn between "lower" management and executives. A company may arbitrarily consider the executive level as ranging, say, from department heads up to the president. (For convenience, these approximate boundaries are assumed here.) But most often the boundaries are extremely vague. And as for appraising executives accurately, only the merest start has been made on this crucially important problem.

Even if that were solved, many businessmen would still complain that executive development is too expensive. The costs can run up very quickly when highly paid men are diverted from their regular duties to prepare for greater responsibilities they may (or may not) hold someday. Creating extra jobs is also expensive: one oil company five years ago figured the cost of shouldering twenty-eight jobs for developing executives at $200,000 a year.

Where expense is no particular barrier and the lack of managers acute, executive development may still be weakened by the reluctance to shift men across divisional lines. Take the case of Food Machinery & Chemical Corp. President Davies a few years ago told his top-management men that "the limiting factor in all divisions is personnel. . . . The training of new management people . . . is our real challenge." Yet, despite the challenge, the company's top management held that executives "obviously cannot switch easily from chemical management problems to machinery management problems." So Food Machinery put major emphasis on developing executives within each division, and did not give

them the broader experience of moving into widely dissimilar divisions.

Opposition to executive development, it should be noted, has been shared by almost every company that has faced the problem. For this task still seems, to most businessmen, an undertaking best left to the individual. Conscious development of executive talent appears to contradict one of the oldest tenets of American enterprise, which is that the members of top management constitute an automatically replenished hierarchy. Symbolic of that hierarchy, the self-made man has been commonly regarded as the inevitable product of a competitive business system in which sooner or later the most able managers rise to the top.

Actually, of course, very few companies have relied on this system alone to fill top-management ranks. For one thing, the desire of the founder to hand his business over to his son or to other relatives has frequently determined the character of a company's management; nepotism is still a tolerated if not a particularly honored practice in industry. Moreover, as industry became more complex, companies went outside their own management for specialists to help them meet competition, or simply bought up, or pirated, the competition's best talent. More often than not, however, top jobs have been filled by those who made the slow climb upward, and the number of those who, like General Electric's former president, Charles Wilson, gained the peak has been enough to maintain the tradition of office boy to president.

But since the thirties the signs have been getting clearer that these orthodox methods of management succession could not furnish industry with either the quantity or the quality of executives it needed. As one executive-development expert put it, "Today you have to shake the bottle to bring executive talent to the top." Though such shaking has been attempted by a relatively small fraction of industry, the need for it is scarcely to be questioned in view of what has been happening to management.

During the depression and again in World War II the infusion of new blood into the lower levels of management nearly ceased; simultaneously, men at the top postponed their retirements. The breach in management succession that this created was indicated in one survey of sixty-five companies, which showed that the average age of the officers had risen from forty-seven in 1929 to fifty-four in 1949, and that of the presidents alone from fifty-three to nearly sixty. Often there was a difference of only three years between the age of a retiring executive and that of his apparent successor.

Another discovery that has jolted many top managements, when confronted with the actual figures, is that normal retirements account for but a fraction of the yearly attrition they can expect in executive ranks. Resignation, firing, sickness, death, and early retirement now open up two to six times as many jobs as anticipated retirements.

At the same time, the increasing complexity of business has loaded management with specialists, few of whom have much knowledge of—or interest in—over-all management. Up through the twenties, production men generally got most of the top posts; then salesmen took over the reins. This was no great handicap so long as the only conscious goals of business were profits and satisfied customers. But since the thirties the specifications for a good executive have been broadened to include not only the handling of public and labor relations but responsibility to the community as well. The result is that many top executives have acquired an impelling self-consciousness about their responsibilities, and such critical introspection has led many to realize the weaknesses in their own ranks.

The realization has sometimes started at the top, but more frequently has come by a kind of industrial osmosis as the importance of practicing good employee relations seeped up through the levels of management and changed the thinking and attitudes about the manager's role. Wherever this has happened, two major require-

ments have become definitive of the good manager: first, that he know how to handle people and gain their cooperation on the job; and second, that he develop those under him who are promotable, including one or more men capable of taking over his own job. The fact that these two requirements are now being used as criteria in formal ratings of executives underscores the change taking place in management thinking about management.

While this reorientation has been going on, changes in business practices and policies have steadily intensified the need for developing both more and better executives. Because so many executives enjoy the security of liberal pension and bonus plans, it is no longer so easy for a company to solve a management problem simply by raiding another company. Involuntary retirement policies have likewise stirred top management to look for replacements. Ironically, the increase in executive security has also made many managers reluctant to reach for added responsibility, stick their necks out, or otherwise disturb their *status quo*.

Perhaps the most direct pressures for executive development, however, have resulted from industrial expansion and decentralization. It is obvious that Sears, Roebuck, for instance, whose retail chain has grown to almost 700 stores since 1925, has needed more store managers. But the big growth in its management has been produced not only by expansion but by decentralization of all retail and mail-order operations into five territories, each with its own administrative staff. Between 1945 and 1950 the company's executive personnel increased 60 per cent to a total of over 9,000. Of these managers, some 4,000 were included in a "reserve group" and 300 in a "senior reserve group" in Sears' executive-development plan. However, more significant than any absolute increase in numbers of executives is the fact that the growing complications of industry have sharply raised the ratio of executives to employees. At Swift & Co., for example, the ratio was 1:100 in 1923 when the

corporation had 50,000 employees; by 1951 it required 2,150 executives to manage 75,000 employees—a ratio of 1:35.

No two companies have followed the same system of executive development, but a logical sequence of steps in a formal development program is now established. The company-wide plan adopted by U.S. Rubber Co. in 1949 is fairly typical, and consists of five major steps. Of these, only the fifth concerns the actual development of executives. The other four are merely preparatory, but each involves a series of major operations:

1. The process begins with an analysis of all the company's operating functions and responsibilities, alignment of functions and removal of conflicting responsibilities, and then the preparation of an ideal organization chart. All these things take time; Standard Oil of California, which is conceded to have done the outstanding job in this phase of a development program, took ten years to complete it.

2. The next step is classifying executive jobs as to function and skill, writing job descriptions (preferably including the president's), and eliminating conflicting duties.

3. Then comes a tough and touchy operation—the inventory and appraisal of present management. Here the task is first to assess the performance of all executives on their present jobs and then to appraise their potentials.

4. The preparation of a replacement schedule is not much easier, since it includes establishing manpower specifications (age, education, experience, physical needs) for each management job, classifying the specifications into related groups, charting the most likely replacements for each job, and planning the routes for advancement. Few companies are yet willing to tabulate the future moves and promotions within management, and in those that do, such tables are top-secret documents. Weaknesses in succession are shown by a color key reflecting the appraisals of each man.

The theory behind these four steps is clear, but no reasonably bright personnel man would expect them to be carried out in just this order. His hope would be that top executives might realize the importance of any one of the steps and start there. This in itself takes considerable doing.

When an executive at U.S. Rubber, for instance, first looked over the development plan, his usual reaction was to assure the training director that his department on its own had already done practically all the things the plan called for. But when the executive was asked about the replacements for certain jobs he was found to be counting on the same man to fill future vacancies in several different jobs. This often came as a shock to the executive himself, and usually persuaded him to start working out a complete replacement schedule. Having started this, he eventually discovered the importance of job descriptions, appraisals, analysis of responsibilities, and all the rest of the program.

In any case, completion of the preliminary steps in a formal program is a slow business, and there is always the danger that executives may become so buried in the paper work that they lose sight of step five, the actual task of developing men. But it is also true that unless much of this preliminary work is done, executive development may be largely a hit-or-miss affair. And waiting for emergencies to turn up openings where executives might broaden their experience is usually far too slow a method. Finally, considering the profusion of methods available, the chances are slim that the company with the "informal" program will hit on those it really needs.

There are, literally, as many ways of developing executives as there are companies trying to do so. All these methods, however, may be roughly divided into two groups: the passive, or off-the-job methods, and those requiring direct on-the-job experience by the

executive. This distinction is not always easy to make, since many techniques are hybrid—conferences and role playing, for example—and teach both passively and actively. But in any case, the methods used reveal top management's attitude toward executive development; the more passive the methods, the less convinced top management is that executive development is really important—but the more vehement is the lip service that it *is* important.

The passive methods obviously include all those activities in which management mostly sits and listens—classes, seminars, debates, discussions, lectures, and conferences. There is no way of knowing, of course, how much this kind of education does to develop executive ability. Undoubtedly it can do a lot, particularly when management men are required to rub their thoughts and attitudes together in the kind of subtle self-instruction that occurs in Harvard's course in advanced management.

However, passive methods of executive development are likely to have the defects expressed by J. & J.'s fast-talking executive counselor Earl G. Planty: (1) "it takes highly able and successful men to influence the behavior of major executives"; (2) "too much detail bores them"; and (3) "they enjoy, almost too much so, a direct approach—good lectures or good telling."

It is not surprising, therefore, that Planty and others have urged more active developmental methods. Of these, many are new techniques and demand the ministration of experts—such as individual counseling, psychological guidance, and teaching executives analytical and "creative" thinking. Others, like role playing, are largely limited to solving special management problems. Among the most promising methods, however, are those that aim to develop executive ability directly, through practical experience. All these are old. What is significant about them is simply that some companies have begun *consciously and systematically* to use them in developing the ability to manage.

To begin with, there is job rotation, perhaps the most elementary system for developing managerial ability. Practically, the opportunities for wide experience in different jobs are rare, since industry demands not only specialization but also economy, and a policy of moving managers from job to job for their own good runs counter to both. But some companies are now convinced that such job rotation will in the long run cost less than promotions according to expediency, a policy that frequently pushes specialists into top jobs demanding broad experience.

In Esso Standard Oil Co., for example, job rotation has been carried out by assigning men to a series of jobs, some of which have been created for executive development. But Esso has not gone so far as Lockheed Aircraft Corp. There promising young managers—about nine a year, carefully selected by a top-management committee—have been taken off their jobs and rotated through the company's divisions for anywhere from a year to twenty-seven months, depending on their individual needs and future prospects. Much of their education has come through observation only, but they also learned by substituting for vacationing managers.

A variation of job rotation is the use of "assistant-to" positions at top levels to broaden experience. For over forty years presidents and vice presidents at Swift & Co. have had from one to three such assistants who sit in their chiefs' offices and handle executive work and responsibility for two or three years. They may then become plant managers, department heads, etc., or may move, directly or eventually, into vice presidencies. Ten of Swift's vice presidents have followed this route. Swift believes so strongly in face-to-face management—and management development—that all except the officers and their assistants work at double desks or at a single desk facing a double desk.

Another practical means of developing executive talent is to assign promotable men to special projects or committees and let

them analyze and solve actual problems facing top management. This technique seems particularly useful where there is strong management opposition to planned rotation between divisions or to the expense of "assistant-to" positions.

Work on special projects is most fruitful, of course, if it embraces many different problems. At Swank, Inc., maker of men's jewelry, a bright young ex-salesman broke a production bottleneck, set up a production control system, and helped end a walkout; he soon became assistant to the production vice president and chairman of a sales-and-production forecasting committee.

Perhaps the most original technique for developing executives is the "multiple-management" scheme started in 1932 at the Baltimore spice house of McCormick & Co. Some 500 companies have adopted this plan, which consists essentially of setting up "boards" of able young managers who analyze problems and make suggestions to the senior board. McCormick has four subsidiary boards (junior, factory, sales, and institutional sales) and the fifteen or so men on each board rate each other's board performance every six months. At least three men are then dropped, and the top six men nominate the balance of the new board. Men often move from one board to another.

The boards work through their own committees, one of which helps ex-members understand why they were dropped and what they have to do to be reelected. Thus an assistant officer of the company, dropped from the junior board because he couldn't handle people, was later elected to the factory board, reeducated by working on its human-relations committee, and reelected to the junior board.

There is not much doubt that multiple management, special-project and committee work, "assistant-to" positions, and job rotation help to develop executive timber. Unfortunately, glib enthusiasts have magnified the results to be expected of these devices. Indeed a company using them without realizing their defects may

possibly wind up in more trouble than if it had left executive development strictly alone.

The chief weakness of the multiple-management system is the one inherent in every democratic system: politicking. A man may attract the attention of a board by submitting a lot of suggestions or by otherwise winning the personal approval of a member—or an officer. Once elected, he may consciously or unconsciously strive to impress his colleagues, who will shortly rate him. And the ratings themselves, no matter how conscientiously done, may include appraisals by men just learning to judge and men who hand out high ratings to those they know or like best. Under such a system the shop and office politicians must be closely watched; however, multiple management's originator and biggest booster, President Charles P. McCormick, believes that McCormick's board members "have been as objective as an adding machine in making their appraisals."

In the case of special projects and committees, there are two potential dangers. One is that men assigned to study and report on a specific problem may not take—or be allowed—the time necessary to become expert, and so fail to do a thorough job. The other is that the morale of executives whose departments are under study may be badly shaken, and a company may lose more through fear or uneasiness in present executives than it gains in developing successors.

Still other weaknesses exist in the system of appointing men to "assistant-to" positions. An understudy may not be given enough responsibility to benefit him, and may also unsettle his superior's security in his position. Moreover, the experience and guidance the assistant receives may be far short of what the position really calls for. As one management consultant puts it, "We tend to manage the way we have been managed." Finally, such assistants are immediately identified as "fair-haired boys" or "crown princes,"

a reputation that can hamper an executive for years and may be offset only by his exceptional skill or personality.

Similar criticisms can be made of job rotation. But a major objection to it is its cost. Moving men through a succession of jobs temporarily lowers job efficiency at each new post and a man may not stay long enough in one spot to pay his way. A company with a comfortable profit margin and long on managers may be able to afford this. But even Standard Oil (N.J.), for example, must have had to think twice when it moved three managers and their families from the United States to Aruba off the Venezuelan coast, where for two years the men relieved three local managers for rotation to other jobs in the affiliate's refinery there.

Of all the weaknesses in these development methods, however, only one is fundamental. Quite simply, it is the lack of any precise means of judging executive ability. Appraising performance is not difficult, but appraising qualities and potentialities involves the basic problem of the nature of leadership. It cannot be answered by listing "qualities an executive should have" and then trying to assess executives accordingly. But a few companies are working hard at the development of meaningful appraisal systems.

One notable approach to the appraisal problem is through the use of psychological tests and consultants. The hazards and complexities of these methods are discussed in Chapter 4, The Tests of Management. A much simpler appraisal system, and one involving no psychologists, has been used by Bigelow-Sanford Carpet Co. Here job descriptions have been worked out for all management jobs including the executive vice president's, and with two annual ratings of the men in the company's executive bonus plan. On July 1 each executive is rated by his superior on the appraisal form that determines merit raises down through the foreman level. Ratings on this form range from one (poor) to five (outstanding) and include eight general-performance ratings, sixteen on growth potential, and

two over-all ratings reviewed by a committee of three higher-ranking executives. The second form, filled out on January 1, employs the same five-point appraisal scale, but covers only job performance on specific functions.

Moreover, each executive is rated not only by his immediate superior; he also rates *himself* on a separate copy of the second form. Self-rating makes him review his duties and analyze his performance; it also shows up differences between his own work standards and his superior's.* Most important, self-rating enables him to tell top management what he thinks of his performance, since his self-evaluation and the rating made by his superior are reviewed by the president, sitting in committee with the personnel vice president and his department head. The committee draws up a final rating.

By its three-way appraisal system Bigelow-Sanford aims to induce executives to become better raters. The appraising executive and the man he is rating discuss the differences between their two separate evaluations. Moreover, the rating system has teeth, since it helps decide executive bonuses. Bonus percentages range from zero for an executive given a final performance rating of "poor," up to a sizable per cent of salary (depending on profits) for those in the highest executive category (vice presidents and general sales managers) who are rated "outstanding."

Such appraisal systems may well sharpen an executive's rating ability but they do not provide a company-wide standard of judgment. Perhaps the nearest approach to this is the "forced-choice" method, first applied in industry by United Parcel Service, deliverer for retail stores. The method is involved (see page 64). United Parcel's management spent a year boiling down thousands of judg-

* The tendency of the most able men is to underrate themselves at first, but this should diminish as the procedure becomes more familiar and the men and their superiors reach a mutual understanding of work standards.

ments into a set of discriminating statements about executives. The aim is to eliminate personal prejudices by forcing the rater to choose among these statements without knowing whether he is rating a man high or low. An apparently favorable statement, *e.g.*, "No one ever doubts his ability," may actually have no weight in the scoring. Many management men object that this feature is "mechanical" and undermines an executive's confidence in his own judgment.

United Parcel, however, has found ways of using this technique to improve its managers' judgments. The annual forced-choice rating is now only the first step; thereafter, each man is also rated by his superior on an appraisal form that allows the rater to express his conscious opinions. The rater's superior then compares the two appraisals, makes his own evaluation, and shows the rater where his conscious judgments differ from those he made via forced choice. But there is no attempt to pin a single numerical rating on a manager. If two executives differ violently in their estimates of a man, they investigate him further, prove or disprove their points—and improve their own net judgment. In any case, the rating process at United Parcel mainly serves to prepare executives for "developmental contacts" that are later involved in working out, with every man they rate, an individual development program.

It is conceivable that as the technique of executive appraisal improves it may become standard equipment for top management. Ironically, however, it is still least applied where it is usually most needed—at the very top. Few presidents or directors will deny that the need for a competent successor to the chief executive has always been acute. This major fact of business life is rarely faced, however, until just before the president retires or just after he drops dead, despite the fact that no business move is potentially so costly as the hurried replacement of a president.

There may be personal reasons, of course, why a president fails

to develop a successor—his pride of position and unwillingness to share authority, for instance. But the reasons he is most apt to list out loud are these: (1) it is next to impossible to set up definite standards for the top jobs; (2) it is extremely unwise to pick a favorite in advance, since no one can say how a candidate will turn out.

These explanations may seem entirely valid for the vast majority of presidents who prefer to risk waiting until the day comes for selecting a successor and then rely on memory and personal judgment. Quite often the choice is the man who is personally congenial to the president, either very much like him—or an exact opposite. Selection on this basis can work out beautifully. On the other hand, the successor may continue the former president's policies when changes are called for; or he may change sound policies and upset the company. Such hazards are being greatly minimized in those few companies where the president is really pushing hard to find and develop the potential executives under him.

One such president, Harry E. Humphreys, Jr., of U.S. Rubber, started thinking about who might be his successor shortly after he took office in 1949. Roused by the fact that all the other senior officers were from seven to ten years older than himself, he began working to create a "reservoir" of replacements for top positions. He continually appraised his managers wherever he met them, and kept his own private notes on all chief executives. He even drew up a tentative list of those men in lower echelons who might comprise the executive committee ten years later. "I'm afraid if I don't do much about this now," he said, "I'll get too old to care myself."

Mr. Humphreys' drive to develop executives may seem new and strange for a president. Actually he has merely done what any board of directors might expect of a top manager. But theoretically this is the work of the board itself. According to President J. C. Baker of Ohio University, author of *Directors and Their Functions*, "The

board selects the chief executive and senior officers and makes certain that able, young executives are being developed." As yet only a few boards, such as that of Standard Oil (N.J.), have even begun to assume all these responsibilities. But as the need for executive development sharpens, their numbers may increase. Indeed it is possible that directors may one day be engaged in programs for their own development.

THREE

Can Executives Be Taught to Think?

THE PROPOSITION THAT the boss ought to learn how to think has probably occurred to practically everyone who has ever worked, including the boss. Even within the ordered enterprise of du Pont the need for better thinking was recently pointed out by one executive with these words: "The number and cost of undiscovered $10,000 mistakes made in our company as a result of faulty thinking are more staggering than anyone would wish to contemplate." The results of incompetent thinking have probably shocked almost every executive at one time or another. The question, however, is this: Can management be taught to improve its thinking?

Before the era of Executive Development opened a few years ago, the common answer would probably have been a flat "no." To the rugged individualist the question itself might have sounded irreverent. Even Thomas J. Watson of International Business Machines, whose "THINK" signs have become as routine in office décor as water coolers, does not allow that managers can systematically be taught to think clearly. But today hundreds of companies are trying out various techniques for developing executive talent, and all these techniques are apparently aimed at improving the mental powers of managers. Obviously a prime reason for using multiple-management boards, role playing, job rotation, appraisal systems, psychological counseling, and the device of sending businessmen off to Harvard and other schools is to equip executives to do their jobs, *i.e.*, to solve problems, make decisions, and work out plans.

A few companies, not content with these indirect methods, have tackled the job of trying to teach their executives specific ways of using their minds. Some, like General Foods, have tried problem-solving conferences, using a step-by-step procedure in analyzing actual situations and arriving at solutions. Another approach is used at International Harvester, where, since 1946, managers have been taking a short course in "logical thinking." And since 1949 the Calco Division of American Cyanamid has developed an impressive educational program in which managers are gradually prepared to work out, among other things, their own understanding and application of "creative thinking."

Yet most executives still seem to be offended by the idea of being taught to think, since executives, like other human beings, normally cherish a high opinion of their own mental powers. An executive may readily admit that he was not taught to think systematically in school, and may recommend a technical education such as engineering for young men hoping to become managers. Or he may agree with what Gulf Oil's President Sidney Swensrud has said, that management needs "broader-gauged" young men with a "liberal" education who can "understand the whole sweep of modern economic, political, and social life." * Yet the closer to the top an executive climbs, the more likely he is to doubt the possibility of teaching so complex a process as "good judgment." He may not be able to articulate the problems of management thinking—or even be conscious of them—but he will probably be convinced that the problems are too numerous and complicated to be solved by any kind of schooling or by any battery of training techniques.

Paradoxically, a lot of able executives are eager to learn any new technique for self-improvement that looks "practical." In recent

* But most companies are still demanding specialists so insistently that graduates with an "impractical" liberal-arts education are becoming a fast-shrinking minority.

years, executives have been taking courses to speed up their reading habits. Stimulated by mechanical accelerators and other gadgets, they are delighted to find they can double or triple their speed in a few weeks. Yet even a reading speed of 600 or more words per minute is not much help if an executive's thinking gets left behind. The confusion over reading techniques is examined separately on pages 52 and 53.

For executives, as for everyone else, the complications of thinking embrace no less than everything in human experience. How a man thinks is determined predominantly by all that has gone to produce his personality, including his parents, schooling, work experience, reading, religion, nationality, and the whole subtle web of social relationships around him. Because he "thinks" with his appetites and emotions as well as with his mind, he usually distrusts the reasoning of others—and will stoutly defend his own. For executives in particular, the thinking process is inevitably complicated not only by the fact that their decisions involve people and intangible factors as well as concrete data, but also by the fact that often there is no time for making a careful analysis of business problems.

These are only a few rudimentary complications that have been discovered by those who have explored management's thinking. The variety of thoughts and opinions on the subject is indicated by the samples on pages 38 to 41 taken from seven businessmen. The views of these men differ; very broadly speaking, they fall into two categories: (1) that the thinking of executives is basically an unteachable, nonlogical process; and (2) that there are practical principles and procedures for helping managers learn how to think better.

Consider first the proponents of "practical thinking." Though their systems for developing clear thought processes vary in emphasis and detail, they commonly recommend a step-by-step ap-

proach in thinking through a problem, and most of them propose a series of questions to clarify and expand the analysis of problems. One system that has impressed some executives is that worked out by William J. Reilly in 1932, ten years after his graduation from Carnegie Tech, where he got the idea that scientific techniques ought to be applied to personal and business problems.

In his book *The Twelve Rules for Straight Thinking,* Reilly outlines "four simple steps" in problem solving: (1) observe and analyze the facts (by asking what, when, where, who); (2) define the problem; (3) examine all possible solutions "that suggest themselves"; and (4) choose the best solution on the basis of evidence for and against each solution considered. Reilly also points out some fifteen "faulty mental attitudes and common mistakes that frustrate orderly thinking." These range from prejudice and fatigue to such errors in logic as "drawing comparisons based on conditions that are not the same."

A more intricate system than Reilly's has been developed by Samuel N. Morrison, who for ten years wrote handbooks for the National Foreman's Institute. Morrison's technique of "foresighting" involves six strategic questions aimed to make the executive think carefully and consecutively through a problem. Each question starts with "why" and is expected to stimulate analytical answers to two distinct aspects of the problem. When a balance sheet of these pro and con answers is made up, the "weight of judgment" leads to a specific decision. The first question, for example, is charted in this fashion:

Why will it matter? { BENEFITS to attain / HARMS to avoid } Determine objective (*)

The series of six decisions reached by Morrison's "foresighting questions" is calculated to lead to "a final, definitive course of action." He has devised also an elaborate set of six "judgment

* Copyright 1953, Samuel N. Morrison.

These four businessmen believe executives can

"Trained intuition" is the best tool for solving most management problems, according to Richard Weil, Jr., who in 1952 retired from the presidency of Macy's in New York. Back in 1940 Weil, a prodigious reader, dashed off a book on *The Art of Practical Thinking.* The book ambitiously covered a lot of ground, from the logic of Aristotle to the semantics of Korzybski, and described seven "instruments of thinking" and six "general rules for better thinking." Weil advised executives to use these rules and instruments on problems when (1) consequences may be grave, (2) there is time to use reasoning processes, or (3) there is sufficient data for "a scientific solution." However, since these three conditions may exclude 99.9 per cent of all business problems, "trained intuition" is management's prime thinking tool. To stimulate this subconscious process, he suggests study of different "instruments of thinking" and "purposeful reflection" about concrete problems. Weil applied his theories at Macy's, but other executives hotly resented them. He now admits that "there may be no psychologically acceptable way to teach better thinking to certain kinds of adults—and it's disconcerting to find that most people who still persist in this effort seem to be cranks."

"Creative thinking" has long been the hobby of Alex Osborn, vice chairman of the Batten, Barton, Durstine & Osborn advertising firm. His book, *Your Creative Power,* is crammed with practical advice and inspirational anecdotes about thinking up ideas. In addition to scores of techniques for "cranking up" the will, stocking one's "mental storehouse," etc., Osborn prescribes specific steps for getting new ideas. These include an intensive search for alternatives, largely by asking questions, *e.g.,* "What can we borrow or adapt?" A major Osborn point is that critical or "judicial thinking" tends to "choke ideas," and should be suspended while "creative thinking" goes to work. On this thesis he originated his "brainstorming" technique (see page 46) in 1939, and his own ad agency has used it fruitfully; *e.g.,* one session produced 124 ideas on how to sell blankets. Osborn holds that managements should use "brain storming" instead of orthodox "judicial" conferences, which stifle suggestions from lower-ranking managers. But like Weil he has concluded that executives are psychologically too resistant to be taught thinking. He now aims to teach young men before they become executives by getting schools and colleges to adopt his new textbook, *Applied Imagination.*

be taught if they want to be taught, while . . .

Attitudes come first in the program developed in 1946 by Merrill E. Kilby, then training director of American Cyanamid Co. Kilby, then a department manager in the Calco Division at Bound Brook, New Jersey, worked out his program with the help of a consulting psychologist, starting with an experimental "vertical" conference aimed at developing cooperation among all levels of Calco's management. Since then, many groups have gone through the process of "getting to know each other," then learning how to work together (this alone may take two or more months), and finally studying, among other things, "creative thinking" and problem solving. Kilby is convinced that "the understanding of a common method of solving problems will make for unity between different groups. When a boss tells an employee, 'Something's wrong with your thinking,' he usually means, 'I don't like your answer.' Actually, the two men may only be disagreeing about a step in thinking." In the conferences managers relate their experiences, and those they have in common are "hitched to a batch of principles." Thus, Kilby says, "we can sharpen a manager's perception and increase his conceptual ability. We can give him a process by which he can 'reason up' to the boss's viewpoint."

Principles and rules for teaching executives how to think have been eagerly sought by Hector P. Boncher, vice president of Dresser Industries Inc. in Bradford, Pennsylvania. While boning up on an executive-development program he wanted to sell to management in 1951, he consulted some fifty books and more than seventy companies. "I became increasingly aware that we ought to try to teach these fellows how to develop an awareness of problems and how to solve them. I learned that the weak spot of the American businessman is that he's an intuitive guy and prides himself on snap decisions. I got together stuff on analyzing problems, and thought that the first operation was 'thinking.' I was trying to get my teeth into something we could teach these men." Boncher found nearly all of them apathetic about reading books on thinking, and set an assistant to studying the solutions of company problems, "trying to recognize academically the different types of thinking, with a lot of examples." He has had his managers define a problem by writing it down. "One book suggested writing it three times. I think I'm flexible enough to change principles and rules, but I like for somebody to say, 'These are the tools—*e.g.*, proper assembly of facts—use them as you think best.' "

. . . these three believe executives must teach themselves

A balanced mind is what the chief executive needs, according to Chester I. Barnard, retired president of New Jersey Bell Telephone Co. Barnard has studied top management's thinking problems for years and has written two scholarly books about them (*The Functions of the Executive* and *Organization and Management*). A few of his thoughts on the thinking processes of businessmen: (1) Like other people, executives are biased in favor of "logical reasoning" but the "reasoning" behind their decisions is usually rationalization of unconscious "automatic" reflection. (2) Paradoxically, executives distrust "logical reasoning" in others, since they suspect conclusions, premises, facts, laws, generalities, etc, which are so commonly based on false assumptions, incomplete data, etc. (3) Nonlogical processes of thinking—known variously as intuition, good judgment, inspiration, sense, and common sense—are necessarily used by executives, since "the analytical process tends to destroy the feeling for the whole, which is the essential feeling to have." (4) For the major executive, "logical processes are increasingly necessary but are disadvantageous if not in subordination to highly developed intuitional processes." (5) There is no direct method for developing the latter.

Constant questioning and challenging should be required of those chosen for top management, according to William F. Bramstedt, president of California Texas Oil Co., Ltd. He traces his convictions about thinking back to the words that University of California's president, Robert G. Sproul, spoke in his 1930 presidential address: "Seek not to learn, but to think; seek not to accept but to question and solve." Bramstedt, an engineering graduate, recalled this text years later when he became convinced that executives needed to be taught to think. The way to accomplish this, he believes, is to create the "right atmosphere" by defining duties, functions, and responsibilities on all management levels. The top executive should isolate himself from past history and present detail, and concentrate on the future. "He should take time out to think." Of himself he says, "I'm more inclined to be plodding and analytical than intuitive, but I have flashes of intuition." The "quick flash" kind of thinking he finds more reliable in older, experienced men who usually, however, tend to hold off "for a second or third look." "I needed training and discipline in how to think," Bramstedt says, and he recommends that young men take engineering or law, or courses in economics and science.

Stimulating the thoughts of executives and employees has been the goal of Thomas J. Watson, chairman of International Business Machines, for over forty years. He conceived his black-lettered trademark, THINK, one dull day in 1911 when he was sales manager for National Cash Register. To bestir himself and his staff to formulate new advertising copy, Watson recalled his father's reverence for thinking, and had a THINK sign made up and hung on his wall. When National Cash's President Patterson saw it, he ordered Watson to have printed copies hung in every office. "By THINK I mean take everything into consideration," Watson says. "I refused to make the sign more specific, like 'Think about Your Work.' If a man just sees THINK, he'll find out what I mean. We're not interested in a logic course. After a person gets the original idea, logic just follows naturally. To eliminate prejudice, we depend on the Golden Rule." Watson believes one way to stimulate thinking is to get employees interested in things outside the company. I.B.M.'s magazine THINK carries articles on world affairs, history, art, science, etc., but none on the company. "Sports are also a great school for thinking. A golfer has to think where he's going to hit the ball."

scales." Using these, he points out, requires "only a high-school knowledge of psychology, physics, engineering, statistics, engineering economy, and the laws of probability." Morrison estimates that twenty-four hours of training would be enough to equip an executive to apply his whole technique.

The step-by-step method of problem analysis and solution may sound like a convincing way to clarify executives' thinking and inhibit their tendency to make snap judgments, but it is still difficult to sell such a system to management. Management's interest in Morrison's technique and Reilly's system has not spread far in the past twenty years. Reilly continues to promote his system through his "National Institute for Straight Thinking," which offers consulting services in "career planning," and through clients who consult him as a specialist in advertising and marketing analysis.

Some executives who have read Reilly's book have tried to apply his advice. The president of one oil company has been especially grateful for having learned from Reilly how to avoid hasty decisions; if his managers now tell him something has to be decided at once, he is almost sure to postpone it until he has thought it over. Reading Reilly also helped stimulate a du Pont sales manager to devote two of his editorials in a company magazine to the need for better thinking by salesmen. But Reilly himself has found that "those most interested in straight thinking are those who need it least—successful business leaders and outstanding young men and women."

Whether or not executives need thinking lessons, they may still resist them violently, as did Macy's New York executives when Richard Weil, Jr., was president. Weil in fact found it practically impossible to persuade his managers to try the six steps for straight thinking he had outlined in his book, *The Art of Practical Thinking*, published in 1941. Weil used his own system in attacking store problems, including revamping Macy's advertising copy, but his

colleagues bristled at his efforts to train them. He now ruefully concludes, "There are three things no man can stand to be told, namely, that he has bad taste, that he can't handle people, and that he can't think." Nevertheless Weil's book helped to inspire one executive, Hector P. Boncher of Dresser Industries Inc. (oil and gas industry equipment), in his earnest search for ways to teach managers in the company to think better.

Boncher first tried discussing Weil's book at several executive-development conferences, but of more than 100 men who attended, only six were interested enough to buy the book. His subsequent approach was based on his belief that "the capacity to think is limited to the individual's total store of images, memories, and experience." To increase their store, Boncher decided to rely mostly on getting top executives in the company to take courses at Harvard and at the American Management Association, and sent men out to get "loaded with ideas" by looking at construction projects related to the company's products. His managers have also tried the technique of writing down their own descriptions of a company problem to find out where they may disagree.

In an effort to arrive at a set of rules and principles on problem solving, Boncher and an assistant have analyzed actual company problems. So far, their main conclusions are that specific cases follow a cause-and-effect pattern, involve only a few key people, and are solved chiefly by "finding out who the key man is and getting him to do what you want him to." This is scarcely a revolutionary discovery, but it points up an essential fact often obscured in the step-by-step systems: that thinking about management problems is inseparable from thinking about people.

This fact is scrupulously observed in Harvard's advanced management courses, where the aim is to clarify the thinking of executives through the study of case histories of industrial problems. The Harvard approach, as pointed out earlier, is characterized by an

almost total absence of indoctrination. Each student is expected to work through his own understanding of the cases as they are argued in class, and the professors avoid saying anything that might possibly be construed as a management "principle" or procedure for arriving at solutions. The process often reduces the aging students to complete bewilderment midway through the course, but after three months many of them emerge with radically changed views about solving problems. For one thing, they may become much more sensitive to the complications that people's feelings introduce into the thinking process.

The success of the case-problem method of teaching management to think is, of course, hard to measure. However, Harvard's professors seem well satisfied with the results they have achieved even when they have applied their system in individual companies away from the campus. Some training directors consider Harvard's method perhaps the best way to teach better thinking to management. Top executives at Johnson & Johnson, for example, are regularly sent to Harvard, while many of those in lower echelons have been given the case-method treatment by Harvard-trained personnel men.

Transplanting Harvard's technique may not always work out. For example, a "human problems" course conducted for du Pont executives in Wilmington by Harvard's Professor Ralph M. Hower seemed quite fruitless. The men generally failed to argue over solutions, and expressed the same basic views about problems. As one participant put it, "Du Pont men want a decision, and if one looks reasonably good they say 'let's get on with it.' " He also pointed out that the men seemed to be distracted by thoughts of urgent defense work piling up on their desks, and didn't discuss the case problems between classes. He believes that if they had been isolated at Harvard for three months the results might have been different.

At least one company, however, appears to have worked out a system for getting managers to consider their thinking processes

seriously without retiring to any campus. Back in 1946, Merrill E. Kilby, a young department manager at Calco Division of American Cyanamid Co. in Bound Brook, New Jersey, was asked by the manager of manufacturing to work out a program of industrial relations that would produce in other Calco departments the same high productivity he had secured in every department he had managed. Kilby knew that to succeed he would have to transform the ways in which Calco's other managers thought and acted toward themselves and employees. But Kilby spent a year working out a program with psychologist F. F. Bradshaw of Richardson, Bellows & Henry, which eventually "closed the gaps" between the levels of management.

The original technique for accomplishing this was an experimental "vertical" conference of thirteen managers, ranking from a shift foreman up to the manufacturing head of Calco's eight plants. The weekly conferences went on for nine months, with Bradshaw guiding the discussions onto problems of human nature, industry, and Calco, in that order, and the men slowly aired their opinions and grievances against each other and the company. This group therapy ultimately enabled Kilby to start a program of vertical conferences in which managers talk about their own experiences and gradually think their way through a variety of subjects, including individual motivation, company objectives, aims of education, and human relations. Eventually, they get to the main content of the course in discussing "creative thinking," basic human needs, and work simplification.

In the discussions on thinking, the conference leaders use material from Reilly's book on straight thinking and excerpts from the works of Alex Osborn (*Your Creative Power*) and Eliot D. Hutchinson (*How to Think Creatively*). Unlike Harvard's professors, Kilby thinks there is no objection to presenting "principles" on thinking to groups that have spent perhaps eight or ten weeks just learning how to work and think congenially. "We don't do a

thing about presenting methods of thinking until the men are working together," Kilby says, "and once this took seventeen sessions." It takes about six months, Kilby estimates, for the effects of a conference to sink in, and he is satisfied that the conferences have enabled most of the men to discuss problems openly and more objectively.

The success of such a conference system within the highest levels of management will largely depend on how strong or rigid the personalities are. An executive who has risen to the upper ranks by his own wits may snort at the suggestion that he should learn "creative" thinking. However, he may be only balking at a word. Thus at Calco, Kilby might have been "thrown off the floor" if he told top-ranking managers he was going to teach them how to "think creatively," but they have listened—and attended—when he said the conferences were only teaching "common sense."

On the other hand, Alex Osborn, vice chairman of Batten, Barton, Durstine & Osborn, after years of crusading for "creative thinking," has concluded that most managers are too set in their ways to accept it. He confesses: "The more I mull over the question of teaching executives how to think and trying to do this after they become executives, the less feasible I deem this to be."

His pessimism does not alter the fact that there are plenty of times when managements faced with a new problem could profitably apply his "brain storming" technique.* And presumably almost any manufacturing company could benefit from his system of "creative thinking," since the chief object of this kind of problem-

* Brain storming is a system of requiring everyone in a problem-solving conference to come up with all the ideas and solutions he can think of, no matter how absurd or irrelevant, and to withhold all criticism ("Think up, or shut up"). Later, all the ideas recorded are sifted and the most promising solutions selected. The theory behind this is that critical or judicial thinking, which is the chief product of academic educational methods, inhibits the flow of new ideas.

solving technique is to produce new business ideas and new products.

The surprising fact is that until very recently psychologists have paid scant attention to the "creative" mental processes. Professor J. P. Guilford of the University of Southern California found that in twenty-three years up to 1950 only 186 out of 121,000 books and articles indexed by *Psychological Abstracts* dealt with the phenomenon of creativity. For the Navy, Guilford has been seeking to identify the factors in "creative talent" so tests may be devised for selecting and developing high-level personnel.

Other studies have established a common pattern of stages leading up to the "flash of insight" and the solution of a difficult problem. Psychologist Eliot Hutchinson describes these four stages: (1) preparation—including definition of the problem and an unremitting search for solutions; (2) frustration—in which the problem is temporarily abandoned; (3) moment of insight—usually while occupied with some minor task like shaving or walking; (4) verification—by applying critical judgment to the insight.

A top executive may actually go through such stages in wrestling with a tough problem, but usually his wrestling is with personalities. Bristol-Myers' President Lee Bristol, who is both an Osborn and a Reilly fan, says his biggest job is "keeping closed minds open," and he has found that subconscious reactions in his executives commonly distort their thinking. "Every man on our staff has better ideas than mine," he says, "but my job is to get the jury to agree. Ninety per cent of all decisions made by our executives are based on compromises. One die-hard in a group can block the thinking of all the others." Bristol frequently uses the "Lincoln technique" in securing decisions; *i.e.*, he first establishes those points in an argument on which all can agree, and this usually shows up the small area of disputed points.

If an executive is willing to try a systematic approach to a tough

problem, however, he may solve it faster. For example, executives of one Philadelphia company recently formed a problem-solving group, and one man submitted a puzzler he'd been working on for nine years: how to get a plating specialist to divulge the secret of a critically important technique this man had developed, and which he claimed no one else could understand.

At the first problem-solving session, the executive and his colleagues went through the steps of defining the trouble, analyzing the ornery employee's attitude, his probable desire for job security, etc. At the second session, "brain storming" produced eighty-three solutions, ranging from "kill the man" to a recommendation that he be promoted. Three days later the troubled executive got the answer while driving to work: let the plating specialist keep his old job but put him also in charge of a new $30,000 machine being installed in another department, and give him some assistants. This resolved the man's security and ego difficulties, and he soon trained two men in the secret process of his old job. In short, the executive's chief problem was his failure to consider the man's needs as well as the company's.

The fact that solutions of this sort sound simple in the telling illustrates how easy a process hindsight is. And because it is so easy, an executive is likely to rely on it, under the name of "experience," for future decisions. Yet what was done in the past may well be wrong for the present, since it is still true that as times change, people, relationships, and everything else change with them.

Indeed, as Jersey Bell's former president, Chester Barnard, has said, "The mere discussion of the matter may *ipso facto* change the situation to a new one calling for a different, new, and uncertain treatment." While this is well known to executives who, for example, have negotiated labor contracts, it may be forgotten

when such matters as "traditional" company policies or job assignments are considered.

For top management the difficulties of thinking are—or should be—so perpetually complicated by considerations of future strategy that nonlogical or "intuitive" reasoning is often essential. Such reasoning may involve a slow process of "turning a problem over" in the mind, weighing intangible factors and information that cannot be logically checked or measured. If the process takes place in what appears to be a split second, the result is usually called a "hunch." Operating by hunches is, of course, risky, and may involve innumerable mistakes in thinking. In business, however, the common test is how often such thinking pays off.

The preference for fast decisions may be so strong in an executive that his thinking about them goes awry. Thus one executive in a large chemical company, who has made some pretty big blunders, says, "If I can be right 51 per cent of the time on a *lot* of decisions, I'd be more satisfied than in making only nine decisions right and one wrong." This statement, which presupposes that the more right decisions an executive makes the better, cannot be taken literally. Its validity will depend on how important the wrong decisions are, and on other factors. For one thing, in a large company significant decisions are rarely the work of one mind; for another, an executive is not likely to go far if his batting average is only .510. The fact that this executive continues to hold a high post in his company is itself strong evidence that his own average is actually far higher.

The ability to make good decisions fast, however, may not be so essential in the highest echelons of management as the ability to speculate and plan. This is emphasized by William F. Bramstedt, president of California Texas Oil Co., Ltd., who has done considerable thinking about management's thinking.

Bramstedt places executives on three levels: those recalling and

studying the past (*e.g.*, comptrollers), those regarding and controlling the present (*e.g.*, plant managers), and those contemplating and planning the future (presidents and vice presidents). "Those chosen for top management," he says, "must be of challenging, inquisitive mind, must be in great measure insulated from the history of the past and the routine of the present, and must, unlike the good soldier, be constantly questioning why." In his opinion such phrases as "hard to get to," "the man with a clean desk," and "the man with his feet on the desk" are actually accurate descriptions of what a chief executive should be—providing he also thinks.

Bramstedt says that management "needs to be taught," but "in practice the need is met by creating the right atmosphere and conditions in which good men can, and are, stimulated to think." His recipe: "Organize management through all levels so as to clearly define duties, functions, and responsibilities; and staff positions with good heads, capable of thinking in the manner required."

What "thinking in the manner required" may consist of will differ for every company. But at the top level there is need for both logical and nonlogical thinking. The logical, "let's-get-all-the-facts" kind of thinking is useful but limited, if only because it is never possible to get all the facts. And logic may produce astonishingly wrong decisions whenever people are concerned—which is practically always.

Similarly, nonlogical thinking by executives has its limitations, especially when it is attempted by managers who do not have what it takes. What it takes seems to be an incalculably subtle mixture of memory, experience, technical knowledge, and emotional maturity that swiftly combine to produce what is called "discrimination" or "good judgment."

While logic and "orderly thinking" may be taught, there is still no systematic way of developing the powers of nonlogical

thought. The process may only be described in generalities that ultimately become clichés. Chester Barnard illustrated this back in 1936 when he attempted to describe the process to the engineering faculty and students at Princeton:

". . . The task seems to be one of 'conditioning' the mind and to let nature do what it then can. The conditioning will consist of stocking the mind properly and in exercising the nonlogical faculties. The mind will be stocked by experience and by study. Experience means doing things, action, the taking of responsibility. It is the process by which an immense amount of material is unconsciously acquired for the mind to use, and intelligence can aid in selecting the field for action, the line of experience, that is promising. Study supplements that process by introducing facts, concepts, patterns that would fail of perception through undirected experience. Action or experience at the same time give the opportunity for practice. There seems to be no substitute for using the mind, applying it, working it, to develop its power. . . ."

Can management be taught to improve its thinking? The answer is yes—up to a point, all the techniques of executive development and systems for "straight" and "creative" thinking may help. But beyond that point, how an executive learns judgment seems essentially his own business—and business furnishes only some of the lessons.

Fast Reading versus

In recent years, a good many companies have urged executives to take lessons to speed their reading, which may consume 25 per cent or more of their time. And executives have responded by signing up individually or in small company groups (usually seven or twelve) at $80 to $100 a head to take courses of speed-up lessons offered by universities and training firms. Some companies, like Mutual Life of New York, have set up their own classrooms.

Techniques vary, but almost all these courses get their results with three machines: (1) a tachistoscope, which flashes numbers and words on a screen to train the eyes to take in more and so make fewer stops per line; (2) an accelerator, whose descending metal shade pushes the reader to read faster and curbs the habit of reading back for missed words; (3) a timer, which checks words-per-minute speed. In addition, the student takes tests for "comprehension" of selected reading matter, usually by answering a series of yes-or-no questions.

The results of machine-powered reading courses are remarkable, statistically. Barring eye trouble or a weak vocabulary, an executive may easily double his reading speed on nonfiction material, and many have more than tripled theirs on fiction. The rise in "comprehension" is generally small, but most executives are delighted to discover they can read much faster and still "get" as much as or more than before.

Despite such results, this approach to faster reading has lately been challenged by a few educators. Some of the tartest criticisms have come from William G. Perry, Jr., and Charles P. Whitlock, directors of Harvard's Bureau of Study Counsel, who have studied the reading problems of more than 3,000 students. The real reading problem, they insist, lies "back of the eyeball," where comprehension takes place in unknown ways.

The task is to change the thinking habits of readers, who have been conditioned by academic-education methods to accept the authority of written words, to give back what is read, and to skip nothing. Reading, say Perry and Whitlock, should be "an active, aggressive acquisition of ideas," and unless students "analyze, criticize, anticipate, select, compare, rehearse, admire, or (for good rea-

son) sneer" while reading, the process is "an utter waste of time."

Harvard's reading trainers still think that machines to speed up reading can be useful. They have developed a series of sixteen Harvard Reading Films to train students to read groups of words at increased speeds, and these films have been sold to schools, military installations, and over thirty companies. The virtue of mechanical accelerators is that they can teach "the foundation of all reading skill: the confidence to dismiss the trivial." By learning—through "some fast and independent thinking"—how to skip rapidly a lot of unimportant words, the reader may learn how to get nothing out of fruitless reading "in one-tenth the time it previously took him to get nothing out of it."

One commercial reading trainer, however, a clinical psychologist named Jack Yourman, is completely against all such machines. Yourman's Speedreading Institute in New York relies on such nonmechanical methods as getting executives to put into their own words the essential meaning of long paragraphs, and showing them how to skim for "Gs" (general ideas). They are also taught to recognize common writing styles and nonfiction categories (problem-solution, thesis-proof, editorial, factual). Thus they can anticipate, by fast thinking, what they may want to skip or skim, and, when the material warrants it, they can slow down to a reading pace at which they really comprehend.

While Yourman's system accelerates reading speeds, more significantly the speeds apparently continue to rise after the course is finished, whereas machine-stimulated speeds generally fall off. But in any case reading speeds are only a measure of the ability to scoop up facts and ideas from written words, and, perhaps, the "confidence to dismiss the trivial."

These are worth having, to be sure. The most fruitful reading, however, still seems to require time as well as thinking. And the system used by Vice President H. P. Boncher, of Dresser Industries Inc., may be as fruitful as any: he keeps working on five books at a time, and as soon as a word or passage suggests an idea he lays the book aside and thinks about the idea.

PSYCHOLOGICAL COUNSELING

How do you pick a good manager or salesman? The answer may be more important for management than any amount of executive development. Many companies have long used psychological tests for selecting employees, but now management itself has begun to take them. How well do such tests work? What can they reveal? Should they be applied? The following chapter examines the potentials and failures of psychological techniques as they in turn have been tested by practical corporate experience.

FOUR

The Tests of Management

NOTHING MORE SIGNIFICANT has happened in management since the war than the fact that many companies have begun to experiment psychologically on their supervisors and top executives. Management men in such companies as Standard Oil (N.J.), Sears, Roebuck, Inland Steel, Union Carbide & Carbon, and General Electric may not have needed an industrial psychologist to tell them that many of their business troubles stemmed directly from their own personalities. But by undertaking to expose themselves to psychological diagnosis, many are learning not only what their troubles are, but also how to make the most of their abilities. The analysis of management's psychological quirks, weak spots, and potentials is turning out to be a difficult and touchy job. But it could do more for business efficiency than all the psychological testing of employees that has been done in the last thirty-five years.

In applying their techniques to management, industrial psychologists have come a long way from the relatively simple aptitude tests of the past. Psychologists have long recognized that tests for aptitudes and skills could only partially predict a man's ability to succeed, for they soon discovered that perhaps eight out of ten job failures were caused by lack of interest or weaknesses in the personality. Though "personality" tests have existed since the twenties, industry's interest in them was quickened by wartime experiments in the armed services. Since then, industrial psychologists have relied more and more on "interest" and "personality" tests, of which there is now an astonishing variety. And with these instruments they have started to diagnose management, whose

successes and failures often appear to bear almost no relation to aptitudes and skills.

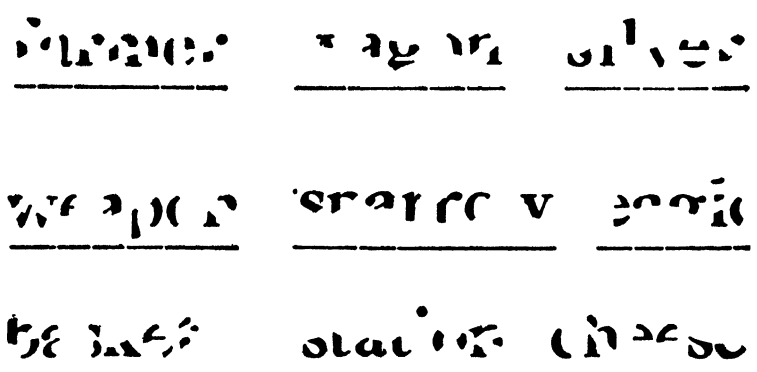
It should not be assumed, however, that psychological tests are yet able to fulfill all the large hopes they have raised in management ever since World War I. Psychological testing by itself is still not an infallible way to pick better workers, select successful salesmen, spot future executives, reduce labor turnover and industrial friction. For years psychologists have been checking results on all sorts of tests, and have developed an intricate science of "reliability," "validity," "correlation coefficients," "percentiles," "norms," and other statistical values. They have not, however, shown that any test, or series of tests, is a scientifically accurate predictor of personnel efficiency. This is most especially true of those "projective" techniques for probing the personality, such as the Rorschach (ink blot) test, the T.A.T. (Thematic Apperception Test), and various "situation" tests, none of which can be better than the clinical skill of the psychologist who interprets them.

The uncertainties in testing are further increased by the relative scarcity of professionals in the industrial field. Of the 7,300 psychologists in the United States who were members of the American Psychological Association in 1950, fewer than 300 had specialized in industrial psychology and not all of these were competent practitioners. Even the competent are roughly split into two camps: those who believe it essential to verify tests statistically, and those who rely primarily on their clinical interpretive skill.

Most of the errors in industrial psychology, however, have been committed by test-happy managements that have not taken the trouble to check up on the tests they use. Some have merely adopted those that another company is using, missing the fact that, for their own personnel, the tests may be useless. On the other hand, some companies have experimented with various industrial

tests—there are more than 500 available—or had psychologists develop new ones for their use, and have been satisfied with the results. Thus Johnson & Johnson found that tests were an important factor in raising productivity by more than one-third. Tests can also cut turnover and save training costs, which may run from $200 for an office worker to $2,000 for an insurance salesman.

Experiments with tests in recent years have taught many companies and psychologists a valuable lesson. They realize now that while no single test or battery of tests is yet entirely dependable, such devices can be useful when applied along with careful interviews, weighted application blanks, and other techniques for judging and selecting personnel. But very few companies or psychologists have yet undertaken the basic, hard research that needs to be done to improve industrial testing. One fundamental problem, for instance, is to discover what actually *are* the qualities or traits that make for success or failure, not in any job but in each particular job.



Speed in recognizing the mutilated words in this Thurstone closure test measures ability to synthesize disorganized parts rapidly—an important asset for executive success.

There are now hundreds of firms, many universities, and countless individuals selling psychology to industry, and most of them offer a wide variety of wares. (The Psychological Corp., for example, which has sold more than $600,000 worth of psychological services a year to industry, advises management on all manner of personnel problems—attitude and morale surveys, development and training programs, appraisal of executives, supervisors, and salesmen, hiring and upgrading procedures, etc.) The item in greatest demand by management is one that would ensure the selection of successful salesmen. Since turnover is always expensive —the loss of 100 salesmen can easily mean a $500,000 increase in direct costs—a sure-fire selection device would be one of the biggest financial prizes that a company or a psychologist could ask for.

For more than thirty years insurance companies have been looking for this prize, and during the thirties the Life Insurance Agency Management Association devised a combined personal-history rating chart and personality questionnaire called the Aptitude Index. Since 1938 more than half a million potential salesmen have been given this test by 174 life-insurance companies, and seventy companies have kept a continuous check on its selection efficiency. Their records have enabled the L.I.A.M.A. to score this form by a precise formula. The Aptitude Index is probably the most widely used and thoroughly verified test in U.S. business; yet very few of the companies using it have been able to come up with fifty successful salesmen out of every hundred inexperienced men hired.

The difficulty in picking a good salesman is that no one really knows what makes one. This fact has not, however, inhibited industrial consultants, "sales experts," and psychologists from attempting to measure through tests the characteristics they assume good salesmen have. The variety of these assumed characteristics is broad enough to cover any calling, since they range from such terms as "extroverted," "aggressive," "courtesy," and "large vocabulary" to "tall" and "stout." Recently there has been less em-

phasis on a salesman's "intelligence" (also variously defined but apparently not essential), and a great deal of emphasis on his "interests" and "personality traits." But the fact remains, the successful salesman is still the hardest man to spot by either tests or interviews or any other hiring technique.

Despite these uncertainties, the business of selling psychological tests for salesmen has grown fast since 1945, when some 350 companies were reported to be buying them. For example, the Klein Institute for Aptitude Testing in ten years of operation sold 100,000 test batteries to over 800 companies. The institute has been run at top speed by a high-pressure ex-sales consultant, Jack Klein, and a staff of market researchers and test analysts, and one Ph.D. psychologist, Dr. Robert G. Bernreuter, who in 1931 devised a widely used "personality inventory" test. The test batteries for salesmen (six tests) are mailed to the client who gives them to candidates to fill out at home. When Klein gets them back, they are scored by clerks, interpreted by the staff, and an analysis, including a recommendation to hire or not to hire, is sent to the client within forty-eight hours.

The Klein system is scorned by most academic psychologists. But the results it seems to give in reducing the number of unsuccessful salesmen hired apparently have satisfied Klein's clients. Among these are such industrial leaders as du Pont, R. J. Reynolds Tobacco, National Cash Register, Addressograph-Multigraph, Lily-Tulip Cup, U.S. Rubber, and the Kendall Co. Klein has loudly promoted and advertised his institute, though he refrains from making statistical claims for the tests. His clients, however, will often do so, perhaps not realizing how difficult it is to prove the validity * of any test. Addressograph-Multigraph Corp., for example, has told Klein that 85 per cent of the tested salesmen he did *not* recommend have failed.

* A test is "valid" to the degree that it measures what it purports to measure, *e.g.*, finger dexterity, and predicts future performance. It is "reliable" if an individual gets about the same score each time he takes it.

Other companies have preferred to hire a psychologist to tailor tests to fit their own salesmen. For example, a most carefully hand-fitted job was completed by Executive Analysis Corp. for Underwood Corp. Much more often, however, a company will simply construct a battery out of standard tests. Common practice is to buy a collection of tests from such leading suppliers as Psychological Corp. and Science Research Associates. After trying out the tests on its own salesmen, a company may merely pick those on which its best men got high scores, and thereafter administer them to all applicants. This method may or may not give better results than the practice of relying solely on the judgment of a supervisor or sales manager. But in any case, almost all psychologists now agree that there is no unique trait of "salesmanship" since sales suc-

---

Probing for Motives: the T.A.T.

In the Thematic Apperception Test the subject is asked to make up his own stories about human situations illustrated in a series of pictures. What he says may reveal to the psychologist his drives, conflicts, how he might act socially, etc. Below are some responses given by clients of Social Research, Inc., of Chicago, whose psychologists, Drs. W. E. Henry and H. B. Moore, adapted the T.A.T. for use on management personnel.



A discouraged sales manager: *"He is happy and contented looking over his property that he worked so hard to get. He works in the city and lives in the country—is raising a large family. Because of his relaxed easy way, he and those around him will enjoy life."*

An aggressive industrial engineer: *"This fellow is waiting for his girl. She called an hour ago and said she would be right over to pick him up. He had*

cess depends on a host of traits and abilities that are usually different for each company, territory, and product.

To some extent, these variables exist for all other jobs, and particularly for management jobs. But within any one company, psychologists believe they can measure the abilities and personality traits that make for success or failure on a job. If a company wants tests that really test, however, it will have to undertake considerable research to dig out some prime facts. To begin with, it will have to analyze each job, secure unbiased ratings of the performance of those doing the job, and determine exactly what are the criteria of success for that job. Without such research, the adoption of psychological tests in industry remains largely guesswork,

---

lent her his Car the day before and probably Should be worried for fear something had happened to hold her up. However he had more or less expected her to be late as it was usually the Case. As he stands there waiting and not appreciating it, he wonders how serious a fault this habitual tardiness will be in a future wife. After some Serious thought he feels that if that is her only fault, life will probably be a bed of roses."

A man whose interests are basically alien to the business world, but who persists in it at considerable cost: *"Soon I will be back in the city at work and all this will be far behind. Let's take one more look. Try to hold in your mind the picture of the past few weeks—the riding, the tennis, the swimming—all these things are over now—"*

A young man who wants to be a salesman and cannot sell: *"This fellow is standing in his front door dreaming My guess is that instead of watching somebody leave he is waiting for someone to come home. My first thought was that his wife had left him and that he was lonesome—but instead of that I now think that he is probably waiting for her to come home from a bridge party and cook supper. On the other hand he could be watching the dog run or waiting for the paper boy—I imagine that though he is alone in the house—it is time for someone to return and he is just standing there waiting for them and day dreaming. As for the past—this seems to be a young businessman who has his own home and who probably came home early to find his wife gone. As for the future—when his wife or whoever arrives—he will greet them, and either help them with dinner or go read the paper—"*

as the experience of one company—Standard Oil (N.J.)—clearly shows.

Some of Standard's divisions and subsidiaries had been using various psychological tests for years before the parent company decided to develop a systematic testing program in 1948. The decision followed a six months' survey of forty-five companies using tests, of the organizations selling or administering them, and of the armed services' experience with them. Standard finally hired Richardson, Bellows, Henry & Co., a firm formed in 1945 by sixteen psychologists who during the war helped supervise the testing of 18 million Army men and later developed selection procedures, including a "Forced Choice" system of rating, by which 9,000 officers were chosen for the postwar army. One of the firm's partners, Dr. Edwin R. Henry, became a full-time consultant to Standard, and his first move was to show Standard how its New York office supervisors tended to rate their subordinates high, a failing caused by what is known as the "halo effect."

Then Henry and his associates went down to the Baton Rouge refinery, spent two months getting acquainted with 650 foremen, and over the next three months they put the foremen, supervisors, and executives through the involved process that eventually produced a "Forced Choice" job-performance report. Essentially this process consisted of getting all the foremen to describe a "good" and a "poor" foreman, and then having each foreman and some fifty supervisors and executives rank every foreman they knew well. Elaborately correlated, a total of 824 statements and 1,600 rankings were finally reduced to a Supervisors Performance Report containing thirty groups of statements about foremen. Each group includes two "unfavorable," two "favorable," and one neutral statement. Only half the favorable and unfavorable statements, however, are "discriminating," *i.e.*, actually differentiate between good and poor foremen. In using the report a supervisor is forced to choose, out of each group of five statements, one that is least

descriptive and one that is most descriptive of the foreman he is reporting on. Since he does not know which statements will count as "discriminating" he cannot load his answers—consciously or unconsciously—for or against the foreman. He merely reports on his performance without evaluating it.

When the Performance Report was tested out by Standard's supervisors, the rankings it gave the foremen were extraordinarily close to those originally given them by their colleagues and supervisors. Dr. Henry and his associates then devised a battery of three tests that correlated with the report. This battery (a supervisory-judgment test, a weighted background questionnaire, and some items from the Kuder Preference test) looks promising to Standard: every one of thirty workers who scored high on the tests has worked out fine since his promotion to foreman. Meanwhile, Standard has developed Forced Choice Performance Report forms and selection tests for its New York office employees and laboratory, exploration, and production personnel. Standard has gone on to develop a Performance Report for higher levels of management, since the method of having top-management men rank each other (including the presidents in two affiliates) worked just as well as it had with foremen and supervisors.

Standard has also looked for a set of tests that will predict the possibility of a man's cracking up or slowing down in a foreign environment. Accordingly, Richardson, Bellows, Henry & Co. has administered tests to those hired by Standard for overseas jobs. One technique that Standard has experimented with is the Rorschach, which is used to reveal, like an X ray, the basic strengths and weaknesses in the structure of the personality.

The "ink blot" test that a Swiss psychiatrist, Hermann Rorschach, completed in 1921 for the study of mental patients aims to reveal the structure of an individual's personality by having him describe what he sees in the delicately elaborate blots on ten cards.

Through these "projections," the individual is said to delineate, unconsciously, the inner patterns of his emotions, thoughts, etc. To score the responses, Rorschach experts have worked out several different complex systems based on where and how the forms are seen; *e.g.*, the animal forms commonly read into some of the cards are checked for specific kinds of detail, movement, form, color, shading, "popular" and "original" responses, etc., etc. Diagnosis may reveal personality weaknesses that would cause an executive to break down under stress.

Even though the Rorschach may succeed in predicting failures among Standard's overseas personnel, its use in industry seems limited. For one thing, it must be administered by a specialist, and the Society for Projective Techniques (formerly the Rorschach Institute) considers that there are only twenty-five or thirty available psychologists who are qualified to do this work for industry. But the greatest weakness of the Rorschach is its inability to predict how a person will perform in a specific business situation. The most damaging evidence on this score was presented in 1948 by Penn State's Dr. Albert K. Kurtz. With the collaboration of twenty-two Rorschach experts, psychologist Kurtz tested out a special Rorschach scoring system based on the responses of forty-two very successful and thirty-eight unsatisfactory sales managers selected from eight life-insurance companies. When the system was applied to another group of forty-one good and poor sales managers, it proved "completely useless" as a predictor of success or failure. Even a second evaluation showed that eight of the twenty-one best managers were "confident of failure." Experiments with the Group Rorschach by the Army, Air Force, and others have turned up equally negative results.

The Rorschach may still be valuable, however, in detecting neurotic or psychotic symptoms in management men who are expected to assume heavy responsibility. The Eagle Pencil Co., for example, has had Rorschach analyses made on all candidates

for executive posts, and this has frequently paid off. A typical case was an engineer who had all the signs of competence and emotional stability, and no unfavorable evidence in his past record. But the Rorschach analysis showed him to be badly in need of psychiatric treatment, and the company didn't take him. Four months later the company learned he had suffered a complete breakdown. On the other hand, Eagle Pencil has taken one or two men whose Rorschach report indicated they would require special handling. For example, one man in whom a high degree of narcissism showed up has been kept happy and productive by giving him the praise that his nature craves.

While the Rorschach technique may reveal the basic structure of a personality, it does not delineate the specific drives that may impel a man in specific situations. To uncover these, Harvard's Professor Harry A. Murray and his associate, Christiana D. Morgan, in 1935 devised the Thematic Apperception Test, or T.A.T., which has been vigorously pressed into industrial use by the Chicago firm of Social Research, Inc. Like the Rorschach, the T.A.T. aims to get the individual to describe what he sees, and thus unconsciously reveal himself. The technique involves storytelling pictures instead of ink blots (see pages 62–63), and its virtues are likely to sound more intelligible to the businessman.

Social Research, Inc., is headed by Burleigh Gardner, an anthropologist turned management consultant. In 1947 he persuaded Sears, Roebuck to experiment with the T.A.T., which a young Chicago University psychologist, William E. Henry,* had adapted for the analysis of executives. After trying the test on some 150 Sears executives and more than 300 other top-management men in other companies, Gardner and Henry announced that they had identified the specific characteristics of successful and unsuccessful executives.

* Not to be confused with Edwin R. Henry, noted above.

According to their T.A.T. findings, the successful executive exhibits eleven definite "traits," and the unsuccessful, twelve. Here, greatly condensed, are the marks of the successful: (1) he is primarily motivated by the sheer accomplishment of work; (2) he accepts authority without resentment; (3) he has strong drives toward achievement first, then toward material rewards and prestige; (4) he can organize events or facts and see relationships that tie them together; (5) he is decisive, either on the spot or after detailed consideration; (6) he has firm conviction, knows what he is, what he wants, and has well-developed techniques for getting what he wants; (7) he has a constant drive to be moving and doing things; (8) he has a pervasive fear of failure; (9) he is aware of immediate realities and their implications; (10) he identifies himself with his superiors, regards his subordinates as "doers of work" rather than as people; (11) he has "left home," *i.e.*, has broken his emotional ties to his mother but retains a positive tie to his father as the admired symbol of authority.

Gardner and Henry have found that the first ten of these traits are present to some degree in all efficient managers. (The eleventh is necessary in executives of large impersonal corporations.) Conversely, they report that the failure of an executive is usually due to a combination of several of these twelve traits: (1) he is detail-minded, cannot see the forest for the trees; (2) he avoids responsibility, does not concern himself with changes or innovations; (3) he unconsciously desires to be in some other, nonexecutive work; (4) he unconsciously desires the social status of an executive, not the work itself; (5) he is intolerant of slow advancement through routine tasks; (6) he cannot cooperate with associates or accept criticism; (7) he resists authority; (8) he is arrogant with subordinates; (9) he interprets situations in terms of his own fixed ideas about himself and others; (10) he concentrates all his energy in his work; (11) he fears success, has an unconscious urge to fail; (12) he is overly self-critical, convinced he cannot succeed.

Social Research, Inc., has sold the T.A.T. to scores of customers, some of whom will not make an executive change without administering the test first. One client, the Gardner Advertising Co. of St. Louis, has put all its executive personnel through the T.A.T. hoop (at $75 per hoop). In applying their techniques, Gardner and Henry have recognized that a man who is a fast-burning executive for one company may be a dud for another. "We know," Gardner has said, "that a good executive for Sears, which stresses delegation of authority and individual initiative, is likely to be a poor bet for the Hawthorne plant of Western Electric, where there is strong central control, elaborate regulation, and close supervision. The more details the company will give us, the more concrete our analysis and recommendations will be."

Even a few details, however, may enable Dr. Henry to predict which of two executives would be more likely to succeed. He has said that if he had to limit his examination to two questions, he would ask each man first to tell him what his father and mother were like, and then what he thinks of at quitting time. In his analysis of the answers to the first question, Henry believes he would make fewer predictive errors than "any current selection techniques that I have knowledge of." And answers to the second question might reduce the percentage of error by another 25 per cent. He says that at day's end the successful executive will think of what work he hasn't yet accomplished and what he can do tomorrow that will eventually improve his position in the company; the unsuccessful executive, on the other hand, thinks mostly of getting home fast to his family, or to a martini.

Like others using projective tests, Gardner and Henry have insisted that these techniques give a truer picture of the individual than the common question-and-answer type of personality test. In the latter the individual is likely to give the answers he thinks the company is looking for, whereas in a projective test he does not know what his answers may mean. Dr. Henry admits that the

"trick" in projective tests "unfortunately" lies in their interpretation by the psychologist—which is why statistical psychologists scorn all projective tests. But Henry considers these techniques better than purely subjective methods: "A skilled clinician can get the same results from a good clinical interview that he can from a Rorschach or a T.A.T., but it takes much longer and the hazards of subjective interpretation, I think, are much greater."

The subjective approach has been used by more and more psychologists who are asked to diagnose management personnel. Called in as consultants, they may become as fixed a corporate appendage as a law firm, charging around $100 a day for their services. If possible, they try to work down from the head of the company, since "that's where management's philosophy starts," and if the president will undergo treatment they know his subordinates will.

The results are sometimes surprising. When the president of a large steel company was about to retire a few years ago, he consulted a clinical psychologist on who should succeed him. The psychologist, who had worked with all the company's executives, recommended one vice president as more fitted for the top job than the executive vice president, who was heir apparent. By the time the vice president took over, the psychologist had helped the other man to realize why the presidency was not for him, and why he would be far happier where he was. His cooperation with the decision was all the more notable in that he had been responsible for calling in the psychologist.

This clinical approach was almost unheard of in 1940 when the management engineering firm of Stevenson, Jordan & Harrison, in "a hesitant and doubtful spirit," set up a psychological division. By 1945 the man who had sold the firm the idea, a Chicago court psychologist, Perry L. Rohrer, headed up a staff of thirty colleagues, and was doing such a lucrative business that he resigned and with eighteen of his staff established the firm of Rohrer, Hibler &

Replogie. Their specialty is the diagnosis and "development" of management, from the president through the foremen.

The firm assigns a psychologist to each job and he begins by taking a detailed personal history of each executive. Then he gives a few tests (intelligence, problem-solving, and personality-inventory), and the behavior symptoms thus uncovered are probed, through personal interviews, until the causes are clear. Once the diagnosis is complete, the "development," or therapy, begins. "To leave a man unaided after he has bared his problems," Rohrer says, "is to invite frustration and confusion." Rohrer's men therefore spend hours getting their clients to confide their troubles, perhaps during a golf game or over a glass of beer. The aim is to help them gradually to see themselves as they are.

In their work Rohrer's men have learned to spot the chief troubles of the man at the top, several of which are to be found nowhere else in the management. They have found few presidents who give themselves time enough for thinking, usually through failure to delegate responsibility. (Two or more phones and a communications set on the president's desk are a danger sign to a Rohrer psychologist.) Rohrer also points out that only a president can know the lonely load of full responsibility, and he must be able to live with it. The No. 2 man cannot know this isolation, no matter how close to it he may seem to be. Another presidential burden, according to Rohrer, is that having reached the top by beating out other executives, he has to unlearn these competitive habits and concentrate almost wholly on getting cooperation from others. As he grows older, he faces other pitfalls: he may grow bored and begin to needle his interest with unnecessary mergers, trade-association work, various "isms," or blondes. Or he may get the patriarchal urge to build a corporate monument to himself.

For psychological ailments of this order, the skill of the clinician appears to be the only technique now available. But it might be a

long time before enough industrial psychologists were available to treat all the U.S. executives who may need it. On the other hand, the need for treatment may decrease as the screening and training processes improve. Some of the most promising methods are those that assay the individual by his actual performance under manufactured circumstances.

The Chapple Interaction Chronograph is a mechanized variation of such "situational" tests. A salesclerk's actions, for example, are recorded by an operator who works two keys on a tape recorder, holding them down singly, alternately, or together when clerk and customer engage in any action (talking, nods, smiles, gestures, etc.). The machine, invented by anthropologist Eliot D. Chapple, aims thus to measure objectively initiative, resourcefulness, sociability, etc. With it, the Associated Merchandising Corp. has predicted, with 90 per cent accuracy, the ranking of salesclerks according to their average daily sales.

Other situational tests are the Oral Performance Test (in which several candidates discuss a problem and are rated on dominance, cooperation, etc.), the "Psychodrama" (in which the candidate acts out some role requiring leadership in an industrial situation), and leaderless group situations (in which management representatives observe and judge candidates in actual work at group tasks). Tests of this sort have been part of a systematic service in Britain that the National Institute of Industrial Psychology has supplied to companies seeking to select potentially successful management trainees. And the "Psychodrama" technique has been used by Ford, Bristol-Myers, Swift, General Foods, and other companies to speed up the training of salesmen. But the real testing of all these techniques has not even started.

By their failures, tests have helped teach management that the human being is not only infinitely complex but also unpredictably dynamic. Again and again it has been shown that whatever a test

may reveal at any one time is not the measure of how fast a man may grow in the forcing temperature of some future experience. Conversely, since tests may reveal more promise than a company either needs or can satisfy, they have been much abused. The Vick Chemical Co., for example, for years sought "creative" young men, and annually hired about thirty of the brightest, most imaginative college graduates that tests and interviews could screen out of some 1,200 candidates. Less than half would be hired permanently after a fifteen-month training period, and most of these left within a few years, since Vick had very few jobs that interested them.

Regardless of such abuses, psychological tests may yet do more than they originally promised. If future experiments bear more fruit, and management through self-examination grows wiser in the handling of men, the whole economy stands to profit enormously.

TRAINING

Need a training program? What kind is best for your company? Managements have had to revise their training policies radically in recent years to get—and keep—the workers and supervisors their companies need today. The next chapter studies the training lessons of World War II, and new techniques developed since that have taught managements a lot more. The importance of a constant "temperature," for instance, and of avoiding the "criticism sandwich." Today executives have six varieties of training to choose from, as well as specific—and controversial—techniques like role playing, and "free" and "structured" conferences. The experiences of companies reported here should help any manager avoid mistakes in choosing a new method.

FIVE

Training Manpower

To ANYONE WHO RECALLS the apathy of American industry toward training workers in 1940, the interest of most manufacturers in training today may seem strange. But the fact is that management now generally knows that a trained worker can be a money-maker for his company, and it is usually easier to develop such a worker than to find one. The available working force has greatly changed since 1940: there are now fewer unemployed, larger military reserves, more older and fewer younger workers, more government and women workers, fewer farm, domestic, and service workers, etc. At the same time, technical developments in recent years have raised the level and number of skills industry now needs.

Many economic changes have also affected the availability of workers. Increased social-security benefits, the widespread adoption of pension plans, and higher wages for "nonessential" jobs can be expected to make workers much less willing to move. Across-the-board wage increases have reduced the wage differentials between skilled and semiskilled, thus reducing both the incentive to acquire higher skills and the proportion of skilled workers available. Increased education for veterans has also drawn many potential factory workers into the professions.

If the training job is likely to be done faster and better today than it was in 1940, it is chiefly because industry learned a lot of hard training lessons in World War II. Since then, research and the development of the conference, role playing, and other teaching techniques have shed much new light. But the education of management in the last war was significant, for it should be re-

membered that industry's basic problem was teaching how to teach, not teaching any particular skill.

The training within industry program during World War II lasted five years, and despite all its mistakes it accomplished the biggest industrial teaching job in history. By September, 1945, when it was finally liquidated, its four national directors had trained twenty-two field representatives who had trained 200 T.W.I. Institute Conductors, who had trained 23,000 trainers, who had trained 1,750,000 supervisors in 16,500 plants and agencies, who in turn trained some 10 million warworkers. The success of T.W.I.'s "multiplier" system of training largely stemmed from the simplicity of three basic courses in teaching that were developed: J.I.T. (Job Instruction Training), J.M.T. (Job Methods Training), and J.R.T. (Job Relations Training). Working these

---

Six Varieties of Training

The following catalogue of industrial training terms and methods—rudimentary for any training man—may be helpful to the executive who suddenly has a training problem tossed in his lap.

On-the-job training, the oldest and simplest, requires merely that the inexperienced worker be broken directly in on the job either by a foreman, a trained instructor, or a skilled operator who may also have teaching ability. The teaching may be very informal, with only an occasional checkup on the learner's output; or it may follow systematic training steps.

In-plant training may employ the same instructors as on-the-job training, but the learner practices on equipment that is set aside from the production line.

Vestibule training requires setting up a separate school in the plant, using batteries of production machines and one or more full-time instructors. The high costs of such training are offset by savings in supervisory time and by speed in training many workers; skilled solderers, for example, may be turned out in a few days.

out and showing management how to apply them was a colossal job.

The first task assigned to T.W.I. produced valuable lessons. Asked to provide 350 lens grinders for the government's arsenals and Navy yards, director M. J. Kane found that it normally took at least five years to master the twenty jobs performed by a "lens grinder." He solved the problem by upgrading skilled workers to do the hardest operations and breaking one prism-grinding job down into fourteen separate operations. In each of these the most critical steps or "key points" were isolated and given special emphasis in an instruction method Kane worked out. The method involved a sequence of seven steps, for Kane, like most professional trainers, believed in training "by the numbers."

Supplementary training may be necessary for brushing up the skills of slow operators, or for training operators in new skills allied to their jobs. Workers may be taught by an instructor in separate groups in a vestibule-type school; or they may be taught right on the line by putting a transferred worker between two experienced operators until he acquires their skill and speed. This is sometimes known as "versatility training," and provides workers that can be shifted to handle production changes, replace absentees, etc.

Apprentice training usually involves four years of instruction and practice in many different skills of a craft. Apprentices may be taught in a specially equipped workshop or learn as helpers under qualified journeymen. Such training, now being given to some 300,000 apprentices, is still necessary to provide manufacturers with tool and die makers, machinists, and other key workers.

Outside training is offered by trade and vocational high schools, colleges, and universities, using both classroom instruction and shop practice work. Their equipment and the techniques taught, however, may be obsolete or inapplicable to the specific skills a company requires.

Kane's seven steps, which progressed from "Show him how to do it" to "Put him on his own," were essentially only an expansion of the four basic steps (Preparation, Presentation, Application, Inspection) that had been developed by Charles R. Allen, a vocational instructor with whom Kane had worked in training World War I shipyard workers. Allen's four steps and many of his training principles had long been taught by colleges and vocational schools, but industry had made practically no use of them.

The gist of the J.I.T. program was finally reduced to a little card that foremen were expected to use on the job; one side gave the four steps of "How to Get Ready to Instruct," and the other the four steps of "How to Instruct." Many of these last steps covered several substeps and, to remind the foreman of his responsibility, the card bore T.W.I.'s slogan: "If the worker hasn't learned, the instructor hasn't taught."

The trainers had no easy time getting foremen to carry out the J.I.T. routine. Many of the steps involved superior skills that few supervisors bother to develop; for example, to "prepare the worker" a foreman had to "put him at ease" and "get him interested in learning the job." Though J.I.T. was nothing more than simplified teaching, it was hard to keep trainers from complicating the course with academic "psychological palaver." Vocational schools ridiculed J.I.T. as a "shot in the arm." But the fact remains that it worked in thousands of plants. J.I.T. sometimes boosted productivity enormously; after foremen took the course at the Oregon Shipbuilding Corp., for example, riveting output per man quadrupled.

As T.W.I.'s staff men soon discovered, however, industry needed much more than J.I.T. The result was Job Methods Training to teach supervisors how to analyze and solve production problems, Job Relations Training to improve the handling of workers, and Program Development to help training directors develop programs to solve specific production problems. Like J.I.T., each of these

programs was a condensed, step-by-step package, and each went through a number of tortuous revisions.

Though they did not gain the wide acceptance of J.I.T., these new courses successively demonstrated three facts about training that many managements have not yet recognized. First, that the developing of workers' skills is merely one step in a process that needs to be carried up through all levels of management; second, that good training is as important for successful operations as good engineering, merchandising, and financing; and third, that training in skills and knowledge may be much less important than training in attitudes.

When the war ended, however, industry's interest in T.W.I.'s courses, and in all other kinds of training as well, faded precipitately. The reappearance of skilled job seekers helped to lessen the interest; but another impelling reason was that companies had learned how much extensive training costs, and when the government cut off its training allowances—from 7 to 10 per cent of overhead on wartime aircraft contracts—few managements were inclined to assume this burden. Many companies were also dissatisfied with T.W.I.'s methods, and there were inevitably many mistakes made by both T.W.I. and management.

Among aircraft companies, errors in training were especially evident. At North American Aviation, for example, a welding trainee was taught all types of welding before he was assigned to a job; today he learns only one type. In addition to overtraining, a Lockheed training director, Joseph J. Schwartz, has also cited seven other major flaws: (1) too much reliance on films and lectures, not enough actual practice; (2) failure to use production men as trainers; (3) misuse of testing techniques; (4) tendency to imitate procedures in other aircraft plants; (5) too much training in associated skills not needed on job; (6) poorly trained instructors; (7) failure to follow up with refresher courses. T.W.I., of course, was not responsible for all these faults, but in Schwartz's opinion

these weaknesses made aircraft-plant training in World War II only about 40 per cent efficient.

Some companies, however, found T.W.I.'s programs so helpful that they have continued them. Eastman Kodak, for example, has made J.I.T. and J.R.T. a regular part of its supervisory training program. And since 1945, when T.W.I. was dissolved as a government agency, its training techniques have been kept alive by the T.W.I. Foundation of Summit, New Jersey.

Industry may not have been converted by its wartime experience, but it certainly is far more conscious of training than it was prewar. Most companies at least now know they may have to adopt several of the six major methods for training workers, and in some large companies all six may be used. (See list, pages 78–79.) However, in deciding which of these kinds of training to use, many managements are still inclined to choose on the basis of immediate costs. And normally the old, familiar on-the-job training appears the cheapest. But it may actually prove more costly in time and materials than even "vestibule" training. General Electric found this out in 1935 and set up a vestibule school for training instrument workers at its West Lynn, Massachusetts, plant, where for a week trainees practiced eight different jobs before being hired to do the job they were best fitted for.

To some companies, training done by outside schools may also seem economical—especially when the government underwrites the cost. But one of the major lessons many companies have learned is that the best—and most economical—training methods are those worked out and applied by their own staff and line men. They may hire professional trainers to show them what to do, and where, but they recognize that it is only their own supervisors who can make the training program succeed. However obvious this may sound, it is one of the most frequently ignored truisms in industry.

It is ignored because most managements still think of training

as something performed only on workers, and assume that anyone who is proficient enough to be promoted to the level of supervisor is also capable of training those under him. Though the T.W.I. programs exposed these fallacies on a mass scale, the fact that they persist in management thinking is shown by the alacrity with which T.W.I. was jettisoned in 1945. Those that have taken training seriously, however, have made some disturbing and fruitful discoveries.

Take the experience of Esso Standard Oil, whose over-all training problems before the war were handled by one staff man in New York. Esso foremen were exposed to the J.I.T. program during the war, but they did not make much use of it. Then in 1946 the company made a study of its postwar manpower situation and found that the foremen did not know what the training needs of their departments were. So Esso's training program began not with training but with planning whom to train and what to teach.

The foreman's first job was to make a careful inventory of each worker's qualifications and potentials, and place him in one of five groups: retiring within five years, qualified in present job and trainable for promotion, needing extensive training, needing some training, limited potentials. Then the foremen analyzed their training needs for the next five years, with the result that Esso's work force was revealed to be in much worse shape than management had realized. Not only were many skilled men soon to retire, but wartime training had made too many specialists and too many operators who weren't fully qualified in all the requirements of their jobs.

Facing the facts, Esso has since gone all out for planned training on all levels throughout the company. A ten-step program was worked out for foremen, starting with the manpower inventory and analysis and proceeding through job breakdowns, individual training needs, job requirements, teaching procedures, selection of instructors, progress records, fixing responsibilities, and putting the

plan in writing. In this process the foreman fills out a variety of forms, cards, and reports, and by keeping them up to date he knows just where his training job stands and where it is going. At Esso's training school in Elizabeth, New Jersey, foremen have been given a two-week off-the-job course in basic supervision, with the New York staff, supplying the field with packaged training programs, visual aids, and professional trainers. But the main emphasis has been on "conferences," for Esso, like many other companies, has found the conference technique eminently successful in training all levels of management—from foremen to vice presidents.

Training conferences are nothing new; Charles (Four-Step) Allen developed them to teach du Pont foremen in World War I. But their popularity has boomed since management began training itself. For one thing, this technique is psychologically much more palatable; management men, who commonly dislike the idea of being "trained," have no objection to "conferring." But conference training in small groups (usually less than fifteen) has many other virtues. It can uproot fixed ideas, change attitudes, develop analytical and questioning ability, uncover and solve problems. Its success, however, depends almost totally on the leader, who needs an astonishing repertory of skills to get results. In Esso's definition a good leader is "never a teacher or lecturer," nor does he tell the group how or what to think or conclude. But "he must plan, promote, lead, direct, inform, interpret, encourage, stimulate, referee, judge, moderate, and conciliate."

Esso has favored the "planned conference" rather than the free or "unstructured" type. Leaders are expected to plan, develop, and control the discussion, keep it on one subject, and bring it to definite conclusions. They are advised to avoid discussion about "personal gripes" as well as "controversial" or "touchy" subjects. These might include complaints about the tactics of one's immediate

boss, or about conflicting rules in different departments (on "coffee hours," for instance), or about executive privileges (flexible working hours, etc.). If such issues cannot be avoided, the recommendation is to "face them squarely if they come up. Be neutral. Do not try to influence opinion one way or the other. Sometimes it is best to refuse to permit the subject to be discussed in the meeting. Do not promise to get action from management. Introduce a hypothetical case closely paralleling the actual situation." In short, "great tact and diplomacy must be used."

Some companies, however, think the planned conference is still too rigid and fails to achieve the real participation possible with the free-conference technique. United Parcel Service, for example, whose vehicles deliver retail merchandise in thirteen metropolitan areas, uses free conferences for all management levels. The conference leader, who is always an operations man, may help guide the discussion of problems but he makes no effort to bring the group to any predetermined conclusions or solutions. Thus when top management decided that a manual of plant-level personnel practices needed revision in 1947, the problem was handed to five conference groups including seventy-five supervisors, and each group spent nine monthly meetings forming its own recommendations. Throughout this period the supervisors were under no pressure from members of top management, who were pledged not to talk about the conference subjects. In the opinion of some training experts, the free conference is "a conversational boat ride on uncharted seas to an unknown port." But United Parcel champions this technique as an approach to "complete democracy" in management.

Moreover, this company is also enthusiastic over another controversial technique, called "role playing," in which supervisors take turns acting out training problems or job situations while their colleagues watch and suggest improvements. Role playing

aims to give supervisors a better understanding of the worker's attitude and a realistic approach to actual situations encountered on the job. At United Parcel such situations are not rehearsed, and in these sessions there is no limit on how long supervisors may remain critical and unproductive of solutions. In the language of the company's training expert, Charles Foreman, this is known as "the empty-bucket principle." According to this principle, men must first be emptied of their "negative and defeatist attitudes before they can start building up constructive solutions and principles."

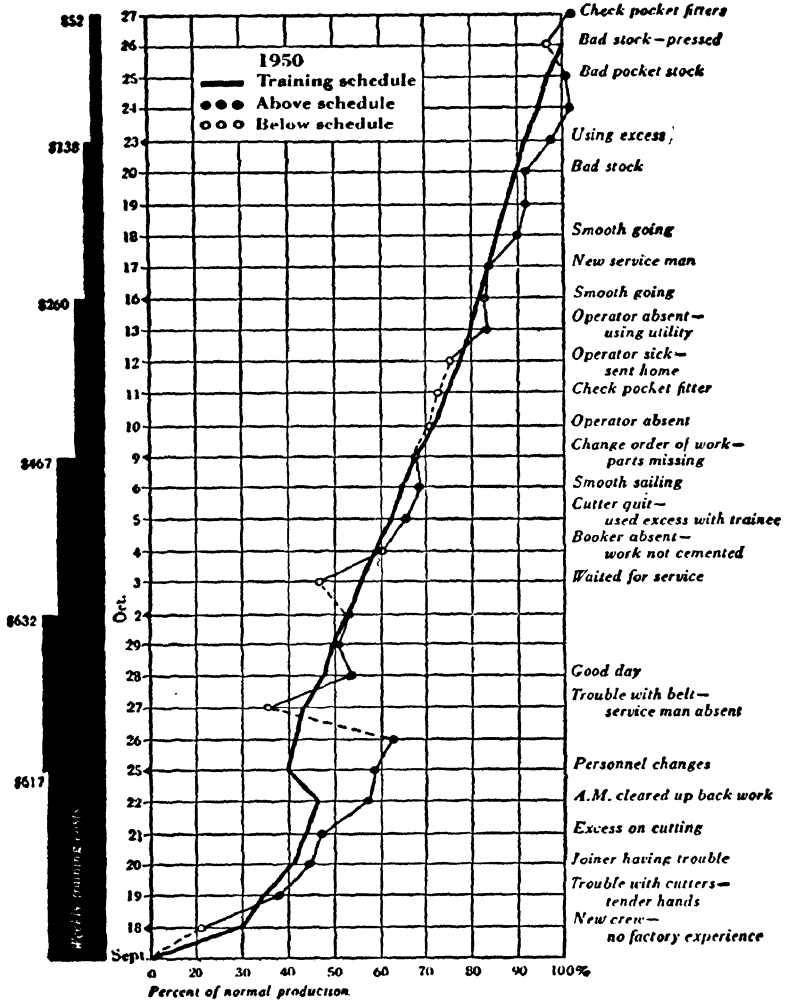
Among the tough problems on which United Parcel's supervisors have used role playing is that of training drivers how to reduce the number of parcels brought back as undeliverable. Following an orthodox campaign against "send-agains," supervisors (most of them ex-drivers) used role playing among themselves to discover ways to persuade their drivers to use methods they already knew for ensuring deliveries. As a result, "send-agains" were further reduced by from 9 to 23 per cent. Far more sensational, however, was the success of role playing in getting unionized drivers in one area to accept new furniture vans equipped with a mechanism that recorded and timed every stop and delay en route.

A previous attempt to use these mechanisms had backfired loudly. The company had installed them in an effort to check on the drivers' efficiency in using their trucks; the drivers, however, viewed this as spying and refused to work. Every supervisor was sure nothing could be done to prevent another failure. But in a two-hour session the supervisors took turns playing the roles of driver and supervisor, and five such experiments produced a solution. They decided that, without mentioning the mechanism, each supervisor was to ask his best driver to take him for a "joy ride" in a new van and encourage the driver to praise the vehicle's obvious virtues. Before returning, the supervisor would hand the driver the key to the mechanism, let him open it, and show him how it

had been receiving their pleasant little ride. He would also point out that the driver would keep the key; this had the psychologically important effect of letting the driver know he was trusted with exclusive access to the mechanism, and would be able to check on the off-hours use of his van. With the confidence the supervisors had developed during the role-playing session, they had no trouble introducing the mechanism.

From such seemingly simple experiences it is clear that good industrial training now involves much more than logical teaching procedures. And because training is now so closely dependent on attitudes, there are few hard and fast rules or principles to guide management. But many training directors would probably subscribe to five broad principles that Charles Foreman of United Parcel has worked to instill in the company's supervisory personnel.

First and foremost is the principle that training requires the development of the proper constant "temperature" in supervisor-worker relations, *i.e.*, one in which correction or advice produces neither friction nor such blunders as the "criticism sandwich." This "sandwich" is a sharp spread of reproof between two layers of praise, and to most workers it is one of the stalest concoctions purveyed by supervisors. In abbreviated form it might start off with, "Joe, you've been doing a damn good job lately," followed by a telltale filler—"But there's something you're not doing right . . ."—and ending with, "However, I want you to know I'm counting on you as one of my best men." Few workers are ever fooled by this technique; they know that the praise is only meant to dull the blow, and the fact that the supervisor thinks praise is needed only produces the uncomfortable impression that the boss is trying to "handle" them. Some diplomacy, of course, is good, but the sandwich variety strains the atmosphere. It is usually delivered under artificial circumstances ("Come in, Joe, and close the door"), and is far less effective than a forthright "positive"


1950
Training schedule
Above schedule
Below schedule
$52
$138
$260
$467
$632
$617
Weekly training costs
Sept.
Oct.
Percent of normal production
0
20
30
40
50
60
70
80
90
100%
Check pocket fitters
Bad stock—pressed
Bad pocket stock
Using excess
Bad stock
Smooth going
New service man
Smooth going
Operator absent—using utility
Operator sick—sent home
Check pocket fitter
Operator absent
Change order of work—parts missing
Smooth sailing
Cutter quit—used excess with trainee
Booker absent—work not cemented
Waited for service
Good day
Trouble with belt—service man absent
Personnel changes
A.M. cleared up back work
Excess on cutting
Joiner having trouble
Trouble with cutters—tender hands
New crew—no factory experience

approach, such as, "There's only one thing, Joe, that I can think of to improve your work. . . ."

A second basic principle is that training should impart to the worker the desire to do his best. Unless such motivation is developed, he will merely do a passing job as long as the supervisor is not watching him—or, as Foreman puts it, "water seeks its own level," and close supervision only succeeds in "building dikes." Third, the training supervisor must qualify, in the eyes of the worker, as competent to judge the worker's abilities. Fourth, the trainer must respect the worker as an individual, neither condemning him for a few errors nor favoring him for a few exceptional abilities. And fifth, the method taught can be either the worker's way or the supervisor's way, whichever gives the best results.

How Much Does Training Cost?

In an effort to answer this question the training staff at U.S. Rubber's footwear plant in Naugatuck, Connecticut, made detailed studies of training costs on specific production jobs. At left is the chart covering the six weeks that a group of thirty-five workers required to reach a daily 100 per cent output of 1,280 pairs of boots. Almost half the workers received some preliminary training on key operations, seven started green on simple jobs, and the rest were transferred from other work. The weekly costs graphed at the left represent the dollar differences between the workers' total pay and the value of their actual output. (The cost rise in the second week reflects the substitution of more highly paid operators whose output was temporarily low.) The six-week schedule (heavy black line) is based on data from previous training cases. Variations from the schedule are explained in the right column: *e.g.*, "using utility" shows that an experienced substitute helped raise output. The graph of actual performance (jagged line) shows that the new crew turned out 25,640 pairs, only 33 per cent less than a fully trained crew. Costs of this learning lag were $2,166, or $62 per worker. Adding $208 for preliminary training and $600 for instructors' pay gives a total predictable training cost of $85 per worker.

These are by no means the last words on training workers. Millions of words, in fact, have been written on the subject in recent years, including numerous principles, rules of thumb, and do's and don'ts. There is also a vast amount of research by the armed services that is revising many old opinions about mass-training techniques. An Air Force study, for instance, showed that trainees—especially slow learners—taught with training films not only learn more in less time but also retain more than those taught by illustrated classroom lectures or by illustrated training manuals.

The Special Devices Center of the armed services, on the other hand, found many training films loaded with Hollywood effects—background music, dramatic scenes, supposed humor, etc.—that contribute nothing to rapid learning and may annoy or divert the learner. Also one experiment showed that few industrial-film producers know a good training film when they see it. One group of such "experts" was shown fourteen films whose training power had been previously tested on Navy trainees. The majority chose one that was only about 50 per cent effective for training—and all failed to name the film that was 98 per cent effective. Much of what the center learned about films has been applied in the use of television to teach small military and government-agency groups.

It may be a long time, however, before industry reaps the benefit of all such research. For, as so many training men have sadly discovered, in most companies training remains a very expendable item. As yet, no company has adopted the policy of including the cost of training as a standard part of its direct production costs. So far, the nearest approach to this has been made at a U.S. Rubber plant, one of whose training charts is shown on page 88. Despite such careful analyses, this plant's training staff has still to get training expense accepted as operating cost instead of as overhead. If they succeed, industrial training will enter a new era. For it will finally have achieved the big transition from a useful intangible to an essential economic tool.

ORGANIZING, PLANNING, AND CONTROL

Executives today are learning a lot about two techniques that aim to solve most of management's basic problems. One is Organization Planning, which may be particularly good medicine for companies whose managements are split with conflicts over authority and responsibility, and perhaps also top-heavy with staff specialists. O.P. is easily the most inclusive and debatable of all management techniques. And almost as inclusive, though scarcely so debatable, is the technique of P & C—Planning and Control. The aim of P & C is to enable management to make a company earn as much as it can, instead of sacrificing profits for volume, false efficiency, prestige, or some other pet policy. The conversion of many top managements to P & C and O.P., and the difficulties these techniques entail, are reported in the next two chapters.

SIX

P & C for Profit

THE BELIEF THAT the top managements of large corporations have a single-minded devotion to profits is one of the great myths of modern American capitalism. As almost any management consultant can tell you, a company's top executives are likely to put a lot of things ahead of profits, and what's more, the pursuit of these other objectives may seriously impair the company's earning power. Keith Powlison, Armstrong Cork's controller, documented this amusingly in an article in the *Harvard Business Review*, in which he described three distinct categories of management's nonprofit motives: "empire building," "ivory-tower perfectionism," and "Maginot-Line building."

Empire builders may want to be the biggest in the field, to keep chalking up one all-time sales record after another; or they may want to be the first to hit the market with a new product, or yearn to blanket the market with an awesome line—everything "from a pin to a battleship," as the copywriters might put it. The perfectionists have their eyes fixed on the goal of efficiency, expressed in such standpat edicts as "Keep those credit losses to a minimum" (even though more generous credit terms might raise profits), and "Scrap allowances will be held to 5 per cent" (though this might easily raise production costs). The Maginot-Line builders, in turn, pass up profits through fear of taking risks, insisting, for example, on too little plant, too much cash, and so forth.

Among such managements are those who cherish and promote an outmoded product sheerly out of sentiment, perhaps because the founder—who is now retired as chairman of the board—still

regards it as "the cornerstone of the business." Or because the product still pleases a few old customers whose trade was once the company's sole support. Another management may push some new product or service merely for the glamour it is expected to bestow on the corporate name, and be perfectly willing to charge the venture to "good will."

There are also those managements who indulge in "business statesmanship." Some may dedicate themselves to union negotiations and to advancing industrial relations generally. Others concentrate on improving the community. And finally there are those who apparently manage mostly for the sheer fun they get out of their jobs. Many of these management motives are justified, and indeed admirable. But they do raise the question of management's first responsibility, profits. Keeping an eye on profits may well become the prime problem of top management, particularly in very large companies.

One eminent reason for this, of course, is that hired management rarely has the insistent drive for profits that the owner of a company normally possesses. For the owner-manager, the company's earnings are the all important pay-off on his investment; but the manager, as a hired professional, is too often predominantly concerned with operating mechanics. Though bonuses or a fixed share in the earnings can sharpen his concern for profits, he seldom achieves what Keith Powlison calls the owner's "feel for profits." Lacking this, it is not surprising that, as Mr. Powlison pointed out, top management has so often been impelled by other motives "to go off the profit standard."

In view of this, it is really surprising that in recent years so many top managements of large companies have started to follow a new gospel of "management planning and control," whose basic tenet is that the first duty of management is to produce a satisfactory profit. Among the converts to this doctrine are many of the best names in industry—Ford, General Electric, Koppers, U.S. Steel,

H. J. Heinz, Armstrong Cork, Allegheny Ludlum. In some cases, interest in the doctrine has been quickened by very rapid corporate growth, which has made management realize that their companies were too big to handle without better systems of controls.

In other companies management's concern for profits has risen as taxes, labor demands, and the costs of expansion and replacement have gone up. Frequently a shake-up at top executive levels, or the accession of young heirs, as at Ford and Heinz, has been enough to start management off on a corporate housecleaning. But the widespread interest in planning and controlling operations is no mere recurrence of cost consciousness after a decade or more of easy profits. Nor is it simply a renewed desire for more efficient methods or laborsaving devices. "Management planning and control" is in current practice far more comprehensive than it sounds.

Even as a concept "planning and control" is not easily grasped. Part of the difficulty lies in its awkward name; in the interest of clarity, this will be condensed to "P & C." The fact is that P & C is a great deal more than the sum of its parts (which are a number of familiar management techniques and tools).

Descriptions of P & C may seem beguilingly simple. Consider, for example, the definition given to members of the American Management Association by T. F. Bradshaw, a management consultant who was formerly a Harvard Business School authority on the subject: "By management planning and control I mean the acceptance of certain objectives. These are the objectives: first, setting a profit goal; second, setting departmental goals which, taken together, will achieve the profit goal; third, measuring progress against these standards; fourth, making continual adjustments to keep the whole organization moving in balance toward the goal."

Offhand, almost any manager might agree that this orderly definition summed up the rationale of good business management.

Moreover, he might well claim that his company is actually using the whole range of P & C tools that the process calls for, from market research, forecasting, and standard costs to quality control and executive development. But it is very unlikely that his company is following the two basic steps of P & C: (1) gearing its operations to a predetermined objective of optimum profits consistent with sound, continuous growth and competitive conditions; and (2) seeing that its various control tools are all *coordinated* to achieve that objective. Many small companies run by owner-managers may in effect apply P & C on an informal, personal basis. But among corporate giants, only two—General Motors and du Pont—have an extended record of systematic and consistent adherence to the concept of coordinating controls toward a planned profit objective.

The du Pont brothers laid down the basic pattern of P & C in 1919 when they decided to expand out of the explosives field into chemicals. They took as their objective a return on investment (approximately 10 per cent), and decentralized the company's operations into autonomous divisions. Each division was charged with a specific investment and each division manager was held "unfailingly accountable" for earning a specific return on that investment. An elaborate system of charts—more than 350 are used today—was set up for "internal reporting." Through these, du Pont's executive committee can check regularly on each division's operations in terms of its return on investment, as revealed in the factors that produce the return, *i.e.*, earnings as per cent of sales, and turnover.

Du Pont's system has not changed essentially since it was adopted. And in 1949, when Treasurer T. C. Davis made public the first detailed description of the system, he underscored its unchanged objective: "We place primary emphasis upon return on investment. . . . The basic concept . . . has not given way to any other." At the same time he summarized the basic elements of

financial control: "Any system of financial control . . . should include a forecast of sales and profits, a forecast of working capital requirements and cash resources, and capital expenditure budgets and working capital standards, together with statements that show the actual operating performance and balance sheet condition promptly. . . ."

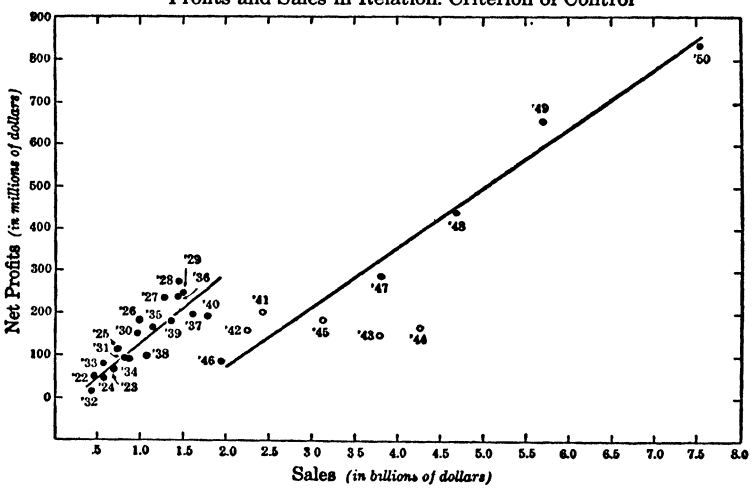
The man most responsible for this theory of financial control is Donaldson Brown, who worked out the control system in 1919 when he was du Pont's treasurer. Two years later he became G.M.'s vice president for finance to work with Alfred P. Sloan, Jr., who was trying to put G.M. back on its feet after its bad fall during the 1921 depression. Brown adapted his principles, including decentralized management, to G.M.'s operations, and with his assistant, Albert Bradley (who eventually became executive vice president), developed cost-accounting techniques by which G.M.'s prices, profits, working capital, costs, and return on investment could be kept in calculated balance with the market demand.* As early as 1926 these controls, together with a "comprehensive scheme of forecasting," enabled Bradley to predict to the National Association of Cost Accountants that the motor-vehicle market, which had soared to an annual level of 4,600,000 cars and trucks, was flattening out. His calculations showed that to offset a 5 per cent price cut and maintain a sound profit margin per unit, the industry's output would have to rise 34 per cent—and no such rise was in sight. History shows that the industry did grow to the level of 5,600,000 cars and trucks in 1929 but did not get up there again for twenty years.

In their organizations, du Pont and G.M. have above all decentralized the authority and responsibility for making profits. And with handsome bonuses they have supplied their managers with

* The factors that basically determine G.M.'s prices are "standard volume" (estimated long-time average rate of plant operation in relation to practical annual capacity) and "economic return attainable" (the highest annual rate of return consistent with a healthy growth of the business).

the motive for success in discharging their responsibilities. Moreover, their systems of decentralized authority achieve another major management objective: the development of superior managers.

Profits and Sales in Relation: Criterion of Control



Control at General Motors

A basic criterion of P & C is the steadiness of the profit-sales ratio, *i.e.*, as sales go up profits should rise proportionately. This chart shows how well General Motors managed to maintain a calculated, consistent profit-sales ratio between 1922 (when it first started P & C) and 1950. The real test of G.M.'s system is revealed in the pre-1940 years when the ratios clustered along one trend line throughout the booming twenties, the depression and recovery in the thirties. During World War II G.M. adopted a policy of limiting profits; this, combined with excess-profits taxes, leveled earnings (note the horizontal 1942–1945 trend of the small circles). Since 1946 a continuously expanding sellers' market has stretched the ratios along a new trend line, which is less steep than the earlier one primarily because a radically different tax load has forced G.M. to accept a lower profit-sales ratio. Though in 1951 government controls and taxes again cut profits, P & C clearly pays off in a fluctuating market.

Neither du Pont nor G.M. has made any great secret of its system. As early as 1924, G.M.'s Donaldson Brown was publicly explaining the concepts and methods of P & C coordinated toward a single profit goal. Since then, many of the techniques, though not P & C itself, have become common in most large companies. There are now more than a dozen such techniques and many are interrelated.

Thus market analysis is used in making up the sales forecast, or "revenue budget" as it is known at Ford, and this in turn results in a series of expense budgets that are not mere estimates of expenses but carefully planned schedules of departmental income and outgo. Similarly, production schedules, standard cost systems, inventory analysis, quality controls, and the planning of procedures can be tied together, as can job evaluations, the organization of administrative departments, and management-development programs. Then there are the checkup tools—daily, weekly, monthly, and quarterly reports or analyses of the results of actual performance. It is important to repeat, however, that the total of all these techniques does not equal the sum of P & C.

Indeed, the variety of these management techniques is so great that any company proposing to install a P & C system is bound to find itself embarked on a program of major proportions. It is likely to discover that what's needed first is an old-fashioned housecleaning. Indeed, as one P & C expert put it, much of the present bustle to adopt P & C is simply a matter of "polishing up the old techniques." It involves most of the same treatments that management consultants have long been recommending to companies. But there is at least one big difference. A consultant may come up with identical recommendations after studying the business, but he is apt to put them in fat reports and they remain the recommendations of an outside expert, to be taken or left as management chooses. But where they are worked out by insiders, by executives, department heads, and committees, such proposals are obviously

far more likely to get results, since the changes and new procedures derive from management's own thinking, planning, and deciding. The further down the management ladder such thinking, planning, and deciding occurs, the better the chance that a P & C system will be applied. However, even assuming that top management wants such a system, installing one is no easy matter.

It is in the upper levels of management that the really big barriers to P & C are found. Perhaps the biggest obstacle is the reluctance of top executives to enforce a new system of budgets, standards, and goals that is almost certain to expose either their old failings and prejudices or those of their predecessors. Even a new president drafted from another company will naturally hesitate to carry out a process that may seriously bruise the egos of managers with whom, after all, he has to live. That the P & C process is painful is indicated by the fact that even managements which are thoroughly sold on it are unwilling to divulge specifically what their systems have accomplished. The suspicion that they have accomplished little or nothing may often be justified; indeed, there is considerable evidence that many new P & C systems exist only on paper, or in the lip service paid them by top management.

Efforts to introduce P & C may be sabotaged by the desire of executives to protect the status of subordinate old-timers. In one company, for example, P & C was officially instituted four years ago, and managers down the line were given definite goals to make. When those who missed their targets were called on the carpet, each had a typical excuse, usually blaming some other department or complaining that the standards were too hard to meet. And top management also did just what it had always done—scolded the men and sent them back to do better. Last year top management decided to get tough by telling delinquent managers they will have three months to make good under the system, and those who fail will be replaced. But, as one executive privately concedes, the president or the chairman will in all probability find some intangi-

ble excuse for keeping veteran managers on their old jobs. The excuse, such as "We can't ignore Joe's twenty years' experience," may be legitimate. But it may also be motivated by sentiment or gratitude; perhaps Joe in the past has helped the chief executive set sales or production records—which are not, of course, the targets of P & C.

In addition to these subjective barriers, P & C inevitably presents top management with many objective problems. One, for example, is the task of finding managers competent to supervise the system. Another might be reeducating the dominant executive who persists in keeping a private set of figures in his head and in running his department "by the way things look." And below the top echelons of management the difficulties inherent in P & C are multiplied in various ways. To a large extent, these will depend on how fully top management has grasped the P & C concept. Generally speaking, the most promising P & C pattern seems to be based, like du Pont's and G.M.'s, on the practice of decentralizing management. Moreover, the degree to which all echelons of management participate in working out a P & C system is a clear measure of top management's understanding of it. There are a host of reasons why no two companies will apply P & C in the same way. But perhaps the clearest way to differentiate their efforts is to consider how they adhere to or depart from the pattern of decentralized P & C. Companies that have recently taken up P & C appear to fall into two broad categories.

There are, first, those few companies that are earnestly rushing to transform themselves to a decentralized P & C pattern similar to the du Pont–G.M. model. Among big companies, Ford is outstanding. Since 1946, when G.M.-trained Ernest R. Breech became Ford's executive vice president, Ford has gone all out for G.M.'s system, setting profit objectives, organizing analysis and control sections, holding division managers separately responsible for

reaching specific goals (and rewarding them accordingly), and manufacturing to a predetermined price. Ford's P & C system has been under the direction of a financial vice president, Theodore Yntema, a former University of Chicago business-school professor who was research director of the C.E.D. Detailed controls are supervised by two groups under the company's Controller. One group performs the standard functions of accounting and figure collecting; the other group, composed of financial analysts, provides data and studies on market and price trends, competition, capital requirements, etc., and checks purchase prices and production costs to make sure that these are in line with those of outside competitors.

The use of competitive prices for the transfers of parts between its divisions is the essential core of Ford's decentralized system, since it puts pressure on each division to operate as efficiently as if it were in business for itself. Ford worked several years to complete the job of establishing transfer prices between its divisions.

Though this operation may sound simple, it is not an easy job for any company since it involves all the practical complexities of P & C. Among other things, it involves setting up cost-analysis sections in each division and having these work out separate cost estimates on all parts to be priced by each division. To settle disputes over prices to be charged by one division and paid by another, analysts in the company's head office may have to break down all cost elements in the separate estimates, and study the actual plant operation and equipment before discovering the reasons for the difference. And before a decision on the price is reached, such a review of disputed prices may lead to considerable changes in production methods or the use of plant facilities.

At Armstrong Cork, the transition to decentralized P & C resulted from another common management problem: the tendency of sales-minded executives to dominate operating policies. Sales managers, pushing for ever higher volume, demanded more and

more products, and Armstrong's sales grew from about $100 million in 1946 to over $160 million in 1949. Profits, however, were declining relatively, from nearly 7 per cent to a scant 6 per cent of sales. Armstrong therefore changed from its old-style type of organization (sales and production coordinated only at the top level) to a staff-and-line system of autonomous divisions, and in two of its four divisions one general manager is now responsible for directing sales and production toward the single objective of an optimum profit for his division.

In contrast to these decentralized systems, many companies tend to concentrate plans and controls at or near the top-management level. At Koppers Co., for example, a Control Section of six men was organized to provide the president, General Somervell, with analytical summaries of departmental plans, forecasts, procedures, etc., and to collaborate with the finance committee on working-capital needs and financing plans. The Control Section also periodically analyzes the company's organization and work methods, and recommends short- and long-range (ten-year) plans to the president and his various management committees.

Ever since Somervell developed the Control Section idea for the Army, it has attracted the attention of top managements having a penchant for complete organization, chains of command, special staffs, and other devices of military organization. This system obviously appeals to chief executives who prefer to keep the reins in their own hands.

There is a variation of P & C that might be called "The Controller's Dream." In this system the general theory is that one man in the company, either the controller or chief financial officer, acts as the chief executive's right-hand guide and adviser. Until recently very few controllers enjoyed such a position. Most controllers still confine themselves to the traditional functions of the "figure executive," collecting and recording statistics and making out tax returns, internal audits, and reports to government agencies.

Predominantly concerned with accounting, they are more accurately called "comptrollers." * However, with the increase in management techniques and the growing complexity of taxes, union negotiations, and government requirements, many controllers have acquired a new importance for top management and have expanded their functions to include planning, and analysis of both internal operations and external business conditions.

Controllers, in fact, have been rising so fast that scores of them have reached the presidency. The Controllers Institute, which since 1948 has been busily promoting a bigger and better role for the profession, proudly cites scores of such presidents. Examples: Sun Oil's Robert G. Dunlop, Allegheny Ludlum's Edward J. Hanley, John B. Stetson's David H. Harshaw, Revere Copper's J. J. Russell, Western Union's Walter P. Marshall.

But despite the rising status of controllers, in large companies where P & C is well developed the man who exercises the real power rarely bears the controller's title. Frequently he is the financial vice president and he may have a whole corps of controllers and assistant controllers under him. An outstanding example is U.S. Steel's chief financial executive, E. M. Voorhees, who has been building up the corporation's control structure since 1938. Today the accounting and statistical departments of Steel's various divisions employ more people (15,000) than the sales divisions, and each unit has its own controller and a full set of P & C techniques. For Voorhees the secret of successful P & C is what he calls "management by exception." By this he means having the analytical staffs in each subsidiary locate the exceptional situations and report them to top management, which makes the controlling decisions.

* From the French *compte*, meaning account; whereas controller comes from counterroll, a Middle English word for the duplicate record kept on one officer's accounts by another.

However, Mr. Voorhees carefully avoids referring to Steel's system as management control. The proper phrase, he will quickly tell you, is "service to management." His use of this euphemism is not simply an attempt to glorify control functions; it is mainly an attempt to solve, psychologically, another tough problem inherent in P & C.

The difficulty pointed up by Voorhees' euphemism is undoubtedly major. Its source is the common fact that almost everybody not only resents the idea of being "controlled," but also resents being judged. And more often than not, apparently, the standards, goals, and especially the budgets of a P & C system are regarded as personal score cards.

This was corroborated by a research team from Cornell's business school, which, under the auspices of the Controllers Institute, studied the impact of budgets on factory supervisors and financial staffs of four medium-sized companies. The supervisors roundly condemned budgets for, among other things, putting ever more pressure on employees, emphasizing only past performance, failing to show why a bogey wasn't made, and implying that supervisors had to be needled into doing a better job. Conversely, the financial people—who thought budgets were necessary for applying pressure but that supervisors lacked the education to use them—tended to consider themselves successful only when their budgets were *not* met.

These findings should not surprise any executive who has been a factory supervisor. He would know that plant managers commonly ignore the accounting department's elaborate figures, keep their own tabs in a "little black book," and generally know whether they are making out well enough to please top management. Because they think in production units, they are suspicious of the controller (the "pencil pusher") as a man who reduces to dollar

figures a job he probably knows little about. This failure of communication appears to be one of the most immediate obstacles to P & C. And in overcoming it, companies are finding that it is the controller, not the supervisor, who has to change his ways.

In fact, where P & C seems to have been most successful, accounting men usually work directly with, and for, the plant manager, learning actual operations in the shop and analyzing them in production terms. Most controllers naturally resent such a shift in responsibility, since it tends to lower their status.

Thus for the controller the institution of P & C may be a trying matter. On the one hand he may have to abdicate much of his authority to the operating departments; on the other, top management may expect him to develop rapidly from a figure specialist into an expert consultant having detailed knowledge of the whole business. In addition, he may be frustrated by the unwillingness of top management to change *its* ways.

Yet all the troubles inherent in P & C do not lessen the great potential virtues in such a management system. Obviously P & C can pay off handsomely. For one thing, by letting top managements know where their companies are heading profit-wise, P & C can tell executives whether or not they can actually afford prestige products, business statesmanship, and other extracurricular luxuries. Most important, however, P & C can be the means to better, steadier corporate earnings.

This pay-off may come slowly, but it is remarkably sure, as du Pont and G.M. have demonstrated. True, the relative steadiness of their earning records cannot be attributed to P & C alone, since there is always some good or bad luck in every profit figure. But P & C plainly helped them both to stay in the black right through the last big depression. And according to G.M.'s Bradley, companies that have recently subscribed to P & C will not really know whether they have achieved it or not until deflation arrives and "separates the men from the boys."

Moreover, if it turns out that many large companies have in fact achieved P & C, the benefits for the whole economy could be enormous. For it seems clear that if hundreds of big companies were operated primarily to produce steady profits over the long run, they could scarcely fail to exert a powerful stabilizing influence on business cycles.

SEVEN

Can Management Be Managed?

No executive who has worked for a large corporation needs to be told that there is a vast difference between the way such a company is managed and the way this process is commonly described. The statement that the president "runs" the company and is "assisted" by everyone under him is a fiction recognized by any manager who has experienced the politics and personalities of top management. The fiction is perpetuated in management's reverence for the titles and functions of corporate hierarchy, and is officially transcribed on the orthodox organization chart whose neat little boxes and connecting lines strive to show who is running what and who reports to whom. In comparison, the "informal" organization that pervades every company is so complex that it probably could never be completely charted. But it is this hidden operating structure that gets the work done. Indeed, it is the biggest intangible asset—and usually the touchiest open secret—of any management.

The importance of this secret is hard to exaggerate. Knowledge of the personal working relationships and crosscurrents of management within a company is the *sine qua non* of every good executive. Without these relationships and crosscurrents, any large company would soon be paralyzed in a rigid framework of corporate bureaucracy.

But at the same time that executives have become more aware

of the importance of informal organization, many top managements, paradoxically, have also been moved to pay more and more attention to formal organization. Their interest has been quickened by a number of factors. To begin with, both technology and government regulations have increased the complexity of business, which in turn has increased the need for specialists. Along with this, management's social sense has widened to include public, industrial, and community relations as functions of the corporation. Rapid industrial growth has multiplied old functions, furthermore, with the result that many large companies, like General Electric and Ford, have begun to decentralize their managements along the pattern set more than thirty years ago by General Motors and du Pont. Wartime experience with the techniques used by the military opened many businessmen's minds to the possibilities of reorganizing their own command structures, and postwar prosperity made many feel they could afford such experiments. Above all, the postwar scarcity of good managers has put a premium on forms of organization that will get the most out of every executive.

It is scarcely surprising, therefore, that "organization planning" has become a recognized management technique. Indeed, O.P. is the most all-inclusive management technique available, more inclusive than even Planning and Control, which is described in the preceding chapter. For O.P. involves the whole structure of a company, its objectives, and all the personal and operating relations within it. And O.P. now has all the superficial traits of a science, including a full set of theorems, principles, dogmatists, and disputes.

The rising interest in O.P. can be seen in the fact that at recent seminars on organization conducted by the American Management Association more than half of the companies participating had an "organization department" or a specialist assigned to the job of O.P. But O.P. is still hampered by a lack of clear definitions of terms and also by a lack of agreement among O.P. students and

practitioners as to how to handle the difficult issues O.P. raises for management. Among these issues:

► How wide should an executive's "span of control" be?

► How should authority and responsibility be divided between "line" and "staff" managers?

► Should conflicts between line and staff be settled by appeal to higher echelons ("laddering up")?

► Does the chief executive actually face a dilemma of needing more specialists and at the same time more control over all parts of the company?

► Can top management rely on committees for coordination and decisions?

► Should the president use an "assistant-to" as a general staff officer?

► Should executives give orders to their subordinates or *serve* their subordinates as "first assistants"?

► How much authority should "group vice presidents" have?

► How can management check up on its own costs?

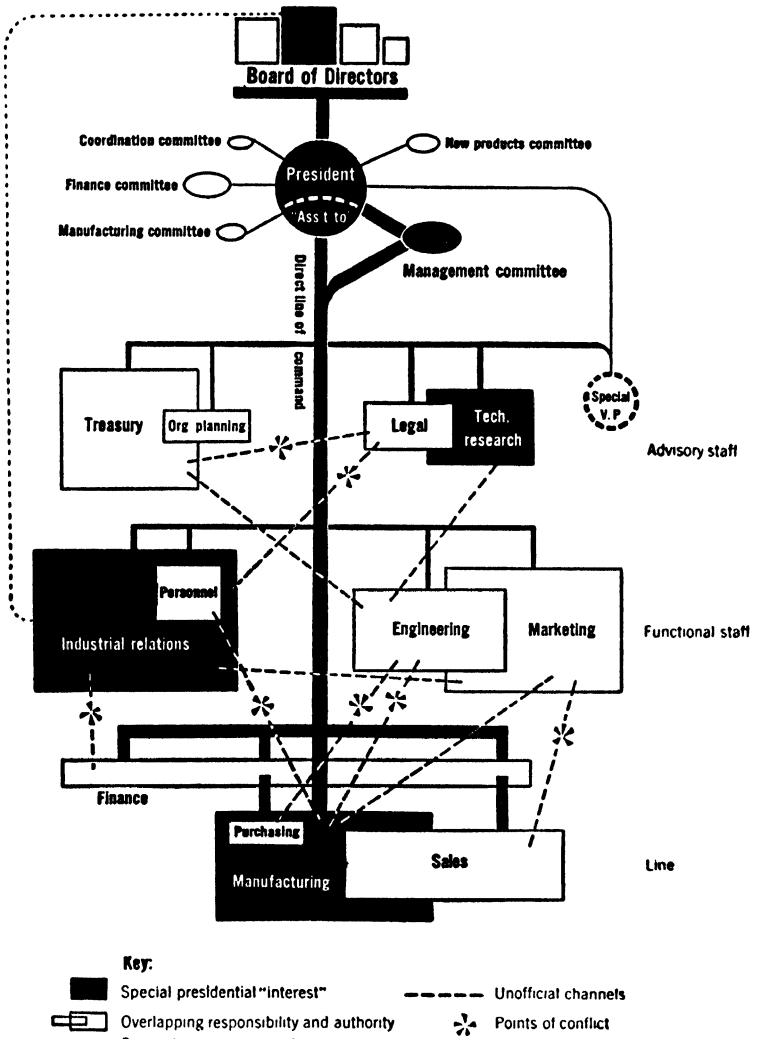
Overlapping many of these questions, there is the basic problem of how ambitiously O.P. should be applied. Some O.P. men think that a logical management structure should be charted and gradually put into effect over a period of years as managers are groomed to fit the plan. Others hold that the formal plan should be based on the established informal organization, and that desirable changes in the informal working relationships will be more acceptable if they are tailored to fit the politics, personalities, prestige, and natural working relations of existing management.

In either case, however, O.P. must grapple with a major problem inherent in every big company: the personal pride that makes every manager apprehensive about efforts to define or reassign authorities and functions. In attacking this problem O.P. touches perhaps the most sensitive areas in the corporation. As Lounsbury Fish, longtime organization counsel of the Standard Oil Co. of California,

has put it, "When management undertakes organization planning, it is playing with the big machinery."

Few men in the United States know as much about O.P. as Lounsbury Fish and Lewis L. Purkey, head of Standard of California's Department on Organization. Purkey started working with O.P. problems in the early thirties, and when SOCAL's President William H. Berg asked him to take a look at the company's top-management structure Purkey quickly discovered how little was actually known about this kind of organization. Shop-management principles had been set forth by F. W. Taylor and other students of "scientific management," but the patterns of upper management had been neglected. Purkey appointed Lounsbury Fish, a young engineer, and Hubert L. Smith, a young comptroller, to undertake research into the how, why, and wherefore of top-management organization. Purkey also induced Professor Paul E. Holden of Stanford's business school to join them in this project, and in 1941, after more than a year of diligent analysis, these three produced the first authoritative study of top-management structure. Stanford has since sold over 75,000 copies of their book, *Top Management Organization and Control.* In addition, SOCAL's organization department has produced a *Management Guide,* which has become a kind of O.P. bible for thousands of companies.

Another major study of O.P. was completed for the American Management Association by Ernest Dale, an assistant professor at Columbia's business school. His book, *Planning and Developing the Company Organization Structure,* reflects the ideas of scores of O.P. men and high-ranking managers, and the actual practices of over forty U.S. companies. Dale also tapped the ideas of two ex-military managers, Lt. Col. Lyndall Urwick, head of a British management-consultant firm, and Dwight Eisenhower. Both, it turned out, agree firmly on one O.P. theory: top management should follow the military in using "assistants-to" as general staff


Board of Directors
Coordination committee
New products committee
President
Finance committee
"Ass t to"
Manufacturing committee
Management committee
Direct line of command
Treasury
Org planning
Legal
Tech. research
Special V.P
Advisory staff
Personnel
Industrial relations
Engineering
Marketing
Functional staff
Finance
Purchasing
Manufacturing
Sales
Line
Key:
Special presidential "interest"
Unofficial channels
Overlapping responsibility and authority
Size indicates relative influence
Points of conflict

officers to lighten the president's burdens. Eisenhower, in interviews and correspondence before he got into politics, and in action in the White House, has shown an ardent belief in the "assistant-to" device.

Executives who like their principles in a neat and orderly package can find them in "The Ten Commandments of Good Or-

---

An Insider's Organization Chart

This array of lines, squares, circles, lozenges, and rectangles shows some of the things that might happen to an orthodox organization chart if it were redrawn to reflect what actually goes on in a company in need of O.P. The company, the Turbid Corp., is hypothetical, but most readers will recognize some familiar situations. Turbid's president is repeatedly asked to settle arguments among the manufacturing, purchasing, finance, and sales divisions, each of which wants its say on inventories. But the most frequent conflicts occur between these "line" functions and those so-called "staff" departments like engineering and marketing that exercise authority over the line through their specialized knowledge.

Turbid's aggressive managers, however, pay scant attention to jurisdictional distinctions. The industrial-relations department's authority, for instance, completely overlaps the personnel department because of (1) the president's enthusiasm for industrial relations, and (2) the emphasis on labor relations in the public utterances of Turbid's dominant board member. Similarly, Turbid's finance chief has so much drag with the president that his department cuts right across all decisions handed down the line of command. The dotted circle (upper right) symbolizes the post held by the fun-loving brother of Turbid's president, who is incapable of managerial functioning and dangles, the fruit of nepotism. The president is surrounded by committees, one so dominant it can give orders down the line as well as advice to him. His young "assistant-to" in his confidential status colors much of what the boss hears from the twelve executives who jealously insist on reporting directly to the chief.

ganization," published by the A.M.A. In simple words, these commandments are:

1. Define responsibilities.
2. Always give authority with responsibility.
3. Never change job responsibilities without informing all concerned.
4. No man should have more than one boss.
5. Never give orders to another boss's subordinates.
6. Always criticize subordinates in private.
7. Settle promptly every dispute over authority or responsibility.
8. A boss's boss should always approve promotions, raises, and disciplinary actions.
9. Never ask a subordinate to criticize his boss.
10. Give every executive enough help to let him check on the quality of his own work.

Among other O.P. principles, perhaps the best known is the so-called "span of control" rule. This holds that an executive cannot continuously direct the work of more than a few men, and the span most usually cited ranges from three to six. However, as Fish, Dale, and others have found, presidents very frequently have at least eight or nine men reporting to them and sometimes as many as twenty-five or thirty.

In theory, O.P. aims to correct all the organizational ills that the modern corporation is subject to. A company adopting this technique in full might be expected to take a dozen or more major steps, from determining the objectives of the corporation to the revising of executive salaries and the writing of procedure manuals.

But the hardest part of O.P., as top managements have discovered, lies in two of its essential operations: defining and reassigning responsibilities and authorities. In short, the critical O.P. job is to answer satisfactorily for all managers that old and impelling question: Who's the boss?

In attempting to answer this question, top management has long relied on the old military definitions of "line" and "staff." A line man in a corporation, as in the military, is one who has the power to give orders to those carrying out the unit's main job, and is responsible for the success or failure of the operation. A staff man, on the other hand, has theoretically no authority to give orders to any except his staff subordinates; his function is to supply advice, coordination, control, and services to the line divisions.

As soon as a company begins to grow, the need for specialization increases and with it the number of men who are needed to perform staff functions. Duties and decisions formerly handled by the owner-manager are delegated to others. Perhaps an accountant is added first, then production engineers, research experts, personnel managers, industrial and public-relations directors. Simultaneously the line functions are expanded, and marketing, transportation, purchasing, and finance may become separate line organizations alongside the basic operations of production and sales. In each case top management determines whether a function has line or staff authority, the decision depending upon how much importance top management attaches to the function—or to the man performing it. In Westinghouse, for example, engineering is a staff function, but in aircraft companies, which are almost all headed by engineers, engineering is the "prestige function," the most important line function of all. As one aircraft executive put it, "We are not in the business of selling airplanes; we are selling engineering."

In more and more companies the work of top management is divided according to functions, and since most of these functions are special services, the organization charts of large companies generally appear top heavy with staff. And the increase in staff functions has automatically enlarged the conflict between line and staff.

The conflict has been sharpened by the fact that line men cannot keep up with all the technical aspects of their jobs, so that

staff men have of necessity often assumed, directly or indirectly, the command, or at least veto power, over the line. Some staff men, such as corporation counsels and treasurers, may act primarily as advisers to top management. But others, such as those in charge of finance, research engineering, and quality control, may, through the power of their more expert knowledge, have achieved "indirect" but nonetheless powerful authority over line operations. The difference between these two kinds of staff men is sometimes recognized by calling the second and more powerful kind "functional staff."

O.P. men, however, disagree sharply over definitions of both line and staff. For instance, Colonel Urwick says that the phrase describing staff specialists as "purely advisory" is "a nonsense, a classic in wishful thinking. It was invented to mollify infuriated 'line' managers, like nurses making clucking noises at babies." Actually the line-staff dispute seems to be, as one O.P. man put it, "more an argument of kingdom establishment or ego satisfaction than of organization."

According to some O.P. men, top management faces a dilemma, which, briefly, is that while management is becoming more and more specialized for the sake of efficiency, the chief executive has to work harder and harder to control and coordinate more and more men. According to other O.P. men, such a dilemma doesn't exist, since the specialists acquired by management are precisely those who should help the president in controlling and coordinating. At the same time, many top managements have adopted a series of committees to coordinate operations and to settle disputes over responsibilities and authorities.

The use of top-management committees has reached a high stage of development in some large U.S. corporations, notably in Standard Oil Co. (N.J.). But committees have their weaknesses, as many companies have discovered. A major weakness is that if the responsibilities of committees and their individual members are

not well defined, committee decisions tend to be compromises that may only further confuse the question of jurisdiction.

For example, A.B. Dick Co., office-equipment manufacturer, tried committee management for six years and found it "unwieldy and confusing." Then the president and two executives turned to O.P., defined the functions of six major divisions, picked the men to run them, and let each director work out specific descriptions of all jobs in his division, including his own. It took eighteen months to develop an operating manual, and two years to make everyone in management understand it. The six division directors now meet irregularly with President A.B. Dick III, and since their authorities and responsibilities are spelled out, disputes over jurisdiction are rare.

Some companies engaged in O.P. continue to leave major decisions on jurisdiction to committees. Yet often after a committee decision, the executive concerned will get the president's ear in private and persuade him to reverse the decision. "There is always a lot of jockeying for position outside of committees," says one steel company's O.P. manager. No matter how well oiled and congenial a committee may be, most executives still seem to expect the president to define the distribution of responsibility and authority among the members.

Appealing to the boss, of course, has been standard practice for as long as organizations have existed. The number of appeals, however, depends almost entirely on the boss, not on the size of the company. In small companies, the top manager himself ordinarily decides nearly everything, because he alone knows enough to. In large companies, where his functions are distributed to a platoon of specialists and line vice presidents, he may also decide nearly everything because he is afraid to delegate.

The fear of delegating responsibility and authority is commonly found where the top executive has grown up with the organization

and has run it from the start. Though such companies can be found in every industry, some of the most conspicuous examples are in the aircraft industry. At Douglas Aircraft, for instance, no less than twenty-seven executives have been directly responsible to Donald Douglas or, in his absence, to senior Vice President F. W. Conant. Douglas, according to some of his subordinates, has feared that if he delegates a lot of authority, too many mistakes might be made. His anxiety has been partly due to his belief that his company has a "public obligation" and cannot afford errors in its enormous business with the government. His sentimental attachment to many executives has also induced him to maintain his span of control over twenty-seven managers.

Douglas, however, was moved to delegate some of his authority in 1950 when the company lost a plant manager and a chief engineer and the president suddenly discovered that no secondary line of executives had been developed to replace them. He called in the company's secretary, L. E. Tollefson, and had him work out an organization plan with potential successors indicated for each position. But no manual was drawn up to describe the responsibilities and authorities of staff and line executives. "We don't go by the book," says Tollefson.

All long-range policy decisions are made known by Douglas through the series of Executive Bulletins he has been issuing since 1928. The problem of coordinating day-to-day details is handled by a Standard Coordination Slip that accompanies each new proposal bucked between departments for approval and comment. ("The Standard Slip," says Tollefson, "is our umbrella.") In a matter that requires a staff man to tell a plant manager what to do in his plant, the staff man writes a memo to Douglas to get his initialed approval of such commands to the line. The four main plant managers have considerably more autonomy than formerly, but all decisions on matters that can affect government officials,

customers, unions, finances, and the public must still be referred to Douglas.

In other companies the process of delegation has gone a great deal further. At San Francisco's Emporium Store, general manager R. H. Biggs has been an ardent O.P. enthusiast ever since the early thirties, when labor troubles and union pressure forced him to adopt job evaluations and classifications. Biggs found that the store's organization had "grown like Topsy," with all kinds of fuzziness and overlap in the authority of the department managers. Biggs corrected this by clarifying the responsibilities and authorities of all buyers (who are the store's only line men), and of merchandisers, admen, and other specialists. He set up standards and procedures, and made all managers responsible for adhering to them.

When a conflict occurs between two executives, Biggs expects each to refer the argument immediately to his superior. He calls this process "laddering up," and if the argument is tough enough it eventually lands in "the final court," which is Biggs's office. "I am the office cop who can relieve them of their responsibilities," Biggs says. Since this procedure is known to both sides, strong-willed managers can't dominate decisions. Also, if staff specialists are not expert, this shows up in the number of conflicts that are "laddered up."

No matter how an organization chart may be drawn, in almost all companies the concept is firmly established that the line of authority and responsibility flows up to the next level of management. But Franklin J. Lunding, chairman of the Jewel Tea Co.'s executive committee, adopted a system that actually aims to reverse the flow. Under his "first-assistant" system, every manager is responsible for assisting his subordinates in the solution of their problems—and is definitely *not* expected to follow the usual practice of having subordinates assist the manager. By "assisting" subordinates, Lunding doesn't mean merely making recommendations

to them, but actually sitting down with them and grappling with the problems.

Lunding insists that his executives think of the organization first and not of their own status. If he finds a manager heavily interested in his own title and function, then "he doesn't work here any more." Lunding has often had to dismiss top executives who were, after repeated warnings, still unable to accept his management philosophy. To set his managers an example, he gave up the job of president in 1951 and became "first assistant" to President G. L. Clements. Lunding tries to place responsibility as close as possible to the actual work load and expects his executives to give advice, instead of issuing orders. "Issuing orders is too much like the textbooks," he says.

When frictions occur, it is up to the top man in a department to reconcile the differences. There is no company manual that defines in detail managerial responsibilities and authorities, since Lunding strongly believes that the man will make the job. He has found the less secure a manager is the more he resists the "first-assistant" philosophy.

As companies climb into the giant corporation class, problems of authority may become acute, especially when a new president takes over with ideas about reorganization. The problems may be handled quite differently within the same industry, as illustrated by the reorganizations at General Electric and Westinghouse in recent years. In each company top management has adopted a system of "group executives" to whom are distributed many of the president's authorities and responsibilities. But the distribution has been notably different in each company.

At Westinghouse, President Gwilym Price has set up four group vice presidents, each in charge of a distinct group of products. Price has delegated to each group "veep" full responsibility for profits in his divisions and authority to see that they are achieved. Each

has also been allowed to set up his own separate staff—supplementing ten company-wide staffs—to help him carry out his work. At G.E., on the other hand, the five group executives appointed by President Cordiner * rely entirely for staff on eleven "service" divisions, and do not have direct authority or responsibility for operations or profits. Complete "operating authority" was left with G.E.'s twenty-nine division and more than fifty department managers.

These differences are significant, particularly the fact that Cordiner shares "executive authority" with his group executives, whereas Price has given his group veeps full authority for operations and profits. General Electric's "executive authority" seems to include (1) determining policy with Cordiner, (2) speaking for him as his "deputies," and (3) maintaining, unlike a military staff deputy, considerable line authority, including the power to make most decisions and to hire and fire division managers.

The concept of "executive authority" is further complicated by Cordiner's statement that his group executives "have line authority" but "do not constitute a layer of management." Moreover, by sharing "executive authority" with them Cordiner aims to make the presidency a six-man "team"—but he leaves with the division managers the right to deal directly with him if necessary.

When Cordiner first outlined the group executives' role in 1951, his concept of "executive authority" was partly responsible for the fact that James J. Nance, then the hard-driving president of G.E.'s Hotpoint Division, refused to take what he considered a tame staff job, and later left to become the president of Packard. Since then, the authority of G.E.'s group executives has been "developed with practice" and Cordiner's deputies seem to have worked into their roles satisfactorily. Despite this, Cordiner and his "team"

* One of the five is, curiously enough, Board Chairman Philip D. Reed. This unusual relationship reflects the dominance which G.E. presidents have long held in the company's hierarchy.

still feel that for "judgment reasons" they are not yet ready to publish, even within the company, the final definition of their authorities and responsibilities.

Both G.E.'s and Westinghouse's systems have their advantages and disadvantages. G.E.'s procedure of delegating full "operating authority" to division and department managers is expected to develop their efficiency, initiative, and profit consciousness. At the same time, the group executives, lacking such direct authority and also sharing "executive authority" with Cordiner, are in a position that individualistic managers like Nance would find uncomfortable. However, since G.E.'s group executives are relieved of direct operating responsibility, they can devote more time to planning and consulting with their division managers.

Conversely, Westinghouse's group veeps, having full line authority, are clearly interposed between the division managers and President Price. While this ensures the veeps' status, it may also inhibit the managers' development. Furthermore, since the group veeps have developed their own staffs, they may not be so easily shifted to other positions. However, their staffs may be able to provide more specialized services for their divisions faster than an over-all company-wide staff alone could.

To a large extent the aim of O.P. is to provide the president with extra arms, legs, eyes, ears, and brains. And the more this can be done, according to O.P. men, the more the president's job becomes primarily one of "coordination." This can mean many things, from keeping tabs on every operation to working out long-term strategy.

In any case, to extend their powers of coordination the chief executives of many large companies have adopted the technique of appointing an "assistant-to." Unlike an assistant, an assistant-to is theoretically without responsibility or authority. In the military services his function is primarily to convey the decisions and orders

of his chief, and he is known as a general staff officer. In business organizations, however, the assistant-to is more often than not a combination errand boy, valet, and personal confidant to the top executive.

Britain's O.P. expert, Colonel Urwick, concedes that the chief executive needs a personal confidant who can perform a "sob-sister" function for the boss in his lonely moments. But Urwick believes the assistant-to should be given a dignified status. "Nothing," he says, "deteriorates the morale of an assistant-to more than becoming known as a bronze key to the president's toilet."

Actually, Urwick sees the assistant-to as a potential candidate for the president's job. He takes the aristocratic British position that since bright young men are not all equal in ability, management might as well recognize it, pick the most promising, and begin to groom them openly for taking over top positions. But American executives generally seem to think that the creation of "crown princes" in an organization is undemocratic and usually damaging to employee morale.

Perhaps this antagonism to the use of assistants-to as general staff officers is partly a matter of title. Many companies, like International Minerals & Chemical Corp. of Chicago, train promising young men in direct line authority by making them assistant vice presidents or general managers. However, General Motors has followed military practice to the extent of having a chief of staff to whom all of G.M.'s "general staff officers" report.

So far, management's interest in O.P. has been almost exclusively centered on management procedures and techniques. Very few companies have bothered to examine the increased costs of management due to expansion in their organizations. The costs of committees, of shifting executives from job to job, and adding new managers and functions, continue to be buried in "overhead."

An indication of how fast management costs may be rising ap-

pears in a study made by Standard of California's Purkey. Purkey got personnel data from eleven companies (eight oil, two public utility, one steel) and compared them with SOCAL's figures for 1946–1952. He found that the number of line employees (operational and mechanical) of the eleven companies had increased less than 2 per cent. However, the clerical forces had increased more than 30 per cent and the number of supervisory and management staff personnel went up more than 33 per cent. And even at SOCAL, where clerical and line employees had both decreased, staff personnel rose over 17 per cent. Purkey attributes the increases in management staffs largely to the race among corporations for technical men. Today, he points out, graduates of technical schools nearly always start in staff jobs whereas they used to begin out in the field.

Purkey's department keeps a check on management costs through a salary-appraisal plan, an O.P. technique that other companies are beginning to use. In SOCAL's plan every management job paying under $35,000 a year falls into one of seven salary ranges. (Jobs over $35,000 a year total about forty and constitute approximately 1 per cent of SOCAL's payroll.) SOCAL has kept control of salaries by limiting the authority of each manager to granting salary increases up to 10 per cent on salaries under $914 a month, providing the increase falls within established limits for the job.

The rise in management costs becomes more marked when a company is expanding rapidly. In 1946, for example, Food Machinery's top management set up a market-research department manned only by one executive. In 1953 this man had seven assistants. As yet there seem to be no rules of thumb or good working ratios to cover the numbers of staff and line personnel a company employs. And many management costs, of course, are so indefinite that they cannot be measured. The value of legal advice, for instance, can be only roughly indicated by the costs of lawsuits won or lost. But O.P. men have sometimes been able to cut a lot of

fat out of management. In advising one company, SOCAL's Lounsbury Fish found it could carry on efficiently with 30 per cent fewer executives.

There is at any rate enough evidence on hand to show that management *can* be managed if top management puts its mind to the job. O.P. men, however, are rather widely divided on the ways and means. On the one hand, Purkey, Fish, and others believe that a logical, preplanned, and balanced organization should be the goal to be reached over a period of years. The secret, Fish says, is to put the O.P. plan on paper with a target date five or ten years ahead, at which time senior executives who were ill-equipped for their jobs would be replaced by younger men who had been trained and molded to fit a preconceived structure of authorities and responsibilities.

Conversely, other O.P. students hold that any fixed formal plan, theoretically sound though it may be, is unrealistic since it ignores the continuous changes in personalities and working relationships every corporation undergoes. Instead of molding men to fit a plan, they say the plan should be continuously molded to fit the natural working relationships in the company. In this kind of O.P. the aim is to reshape—and keep reshaping whenever necessary—the established informal organization into economic units that capitalize on the existing working habits and interactions of individuals.

In practice the differences between these two kinds of O.P. are not so sharp as they seem. For long-range O.P. men will temporarily modify their plans to suit existing relationships and personalities. The chief difference seems likely to appear whenever an executive moves to another job. Long-range O.P. men would oppose allowing such an executive to take some of his old functions over to the new job, no matter how expertly he has performed them, since this would automatically raise organization problems for his successor. Under the informal kind of O.P., such a transfer

of functions would be part of the reshaping process that aims to take advantage of efficient informal working relationships.

There are obviously strengths and weaknesses in both these O.P. methods. And the choice between them will depend largely on the character of top management. Where top executives are extremely touchy about their authorities for instance, a tailor-made informal O.P. plan adapted to their idiosyncrasies will be more appealing—if they will agree to any sort of O.P. at all.

However, formal long-range O.P. has many virtues. One is that it works toward an organization whose functions and responsibilities are well defined, and which can be manned by ordinary, even mediocre, executives. And the bigger a company becomes the more dependent it is on run-of-the-mill managers, since there just aren't enough "bright boys" to go around. Formal O.P. can also promote orderly delegation of authority, wider knowledge of the company's objectives and functions, and many other benefits. In particular, definitions of authority, once openly arrived at and accepted, can relieve executives of anxiety about their roles. Those who claim that such definitions would inhibit their initiative are often merely trying to protect their status or to hide the unimportance of their jobs.

It is true that formal O.P. could, by rigid definitions and strictly rational divisions of the work, gradually transform an enterprising corporation into an arid bureaucracy. But some degree of bureaucracy is inevitable, after all, in every big corporation, and an orderly O.P. bureaucracy would, in itself, be no calamity. Indeed, the real calamity for the large corporation is to become—formally or informally—a disorganized bureaucracy.

MANAGEMENT COUNSEL

How do executives choose a new management method from among all those now available? The evidence is clear that in most companies, large and small, the decision is remarkably haphazard. In some cases, the choice is made by hearsay; in others by pure guesswork. Sometimes management will hire a specialist; sometimes it will buy the advice of a management consultant. In practically all cases, management runs the risk of picking the wrong technique. But some companies have found ways of reducing even the risks of selecting a management consultant. As the following chapter shows, before an executive chooses any technique, he should first find out what the problem is.

EIGHT

What's Your Problem?

In the last few years executives have heard of, read about, discussed, devised, applied, experimented with, and been disgusted at more management techniques than were ever dreamed of by Frederick Winslow Taylor, the father of scientific management. The methods that interested Taylor and his colleagues, mostly time-and-motion studies, still interest management. But along with these today is a whole battery of systems ranging from such relatively precise techniques as Statistical Quality Control and Operations Research to those like Communications and Community Relations, which bear the unmistakable stamp of the social sciences. As management problems multiplied, this profusion of methods was inevitable. But this fact in turn has inevitably faced managements with an extremely confusing problem—the problem of choosing the right techniques.

There is plenty of evidence that the choosing has been haphazard, biased, and ill-informed—as well as blind. Some techniques like Executive Development have become fads; some, like Participation, have been accepted as likely panaceas; others, like Planning and Control, have been attempted by executives who completely failed to grasp what such inclusive concepts meant.

Moreover, the problem is compounded by the fact that there are perhaps 8,000 individuals and firms in the United States now offering management advice on new methods; choosing a management consultant has become a technique in itself. Errors in selecting both consultants and new methods are, of course, due to ignorance somewhere in management, and often at the top.

The fact is, however, that there is almost nothing about a new management method that an inquisitive executive cannot discover if he wants to. Even on the technical level, "trade secrets" are rare. Details on manufacturing processes are here and there still considered top secret, and data on costs and profit margins are generally well guarded. But information about methods whose benefits usually cannot be exactly measured in cash is now freely shared throughout industry.

Significantly, management gets some of its most detailed information about new methods from competitors, either directly or indirectly. Many companies that have successfully adopted a new technique are proud to show a competitor's representative how it's done, even to opening their books on specific cost data. And indirectly, a company can readily check on competitive practices. The American Management Association, for instance, has advertised its publications on methods with these words: "Success IS a secret—But it's yours to share through A.M.A. Company A may not tell company B, *but* when it comes to the latest methods in progressive management they *both* tell the American Management Association." A similar exchange of information may occur through management consultants who serve competing clients. As one consultant says, "Theoretically, competitors cannot consult, but they can consult with the same consultant."

In short, so far as new methods are concerned, managements are avidly picking the brains of other managements. Such collaboration may seem contradictory in a competitive economy, but it is nothing that need concern the Justice Department. For despite the free exchange of information about techniques, there is no assurance at all that companies will gain any advantage from pooling their knowledge of a particular management method. Since the success of any technique depends on management's abilities in choosing and applying it, and since these abilities vary with every management, every company is necessarily on its own. The

clear proof of this is to be seen in the diversity of ways in which companies actually choose new methods.

Consider, first, how most small companies make their selections. The typical owner-manager simply looks for a fast solution to the troubles in his shop. If one of his men comes up with an idea—perhaps gleaned from visiting a competitor's plant—the boss may try it. Or he may call in a supplier and ask him for help. ("I don't know what the little manufacturer would do without top-notch assistance from his suppliers," says one small Dallas manufacturer.) The owner-manager rarely seeks any other outside advice, for he usually knows his business like the back of his hand and resents the idea of asking for—let alone paying for—the high-priced advice of a management consultant. Moreover, he generally isn't curious about new methods that don't apply directly to production problems, even though he may, in fact, be continually doing things about personnel, budgets, and markets that are, in fact, techniques.

But there are small companies that consciously keep looking for new methods. For example, the operating head of Atlanta's Cox Foundry & Machine Co., J. W. Simmons, spends up to six weeks a year visiting other foundries and machine companies, and he and his key men meet daily over coffee and doughnuts to discuss new ideas. A few small companies are also willing to hire outside advice. Rochr Products Co., which makes hypodermic needles in Waterbury, Connecticut, during its first three years of business used four consultants in adopting techniques of quality control, work measurement, cost accounting, job evaluation, and metal finishing. Having started his company with ten employees, Z. M. Roehr, a Polish refugee, is happily sold on consultants: with nearly 200 people on the payroll in 1953, the company had become one of the three largest in the industry.

More often, however, small companies are likely to be disappointed in what management consultants try to do for them. Rightly or wrongly, many small businessmen would probably agree

with A. D. McGill, partner of Denver's Wright & McGill Co. (fishing tackle), who says that "in most cases outside consultants simply don't solve the problem. They may be fully qualified and can give endless technical advice, but they can't tell us how to put their knowledge to practical use. Quite often I have had to take off my own coat and work with such fellows, doing more explaining of our problem to them than they do explaining their special knowledge to me."

Even if a consultant is hired, the manager of a small company will usually make his own choices. President Ralph E. Merritt of Coast Manufacturing & Supply Co. in Livermore, California, decided in 1947 that his company, then making safety fuses only, might profitably bolster sales by making auto-harness and house wire. He asked one of the biggest management consultants, McKinsey & Co., to do a market-research job and tell him whether the proposed new side lines would be worthwhile. McKinsey's answer was no—"a two-letter word for which we paid a couple thousand dollars." In the long run, however, it was probably very cheap advice.

For subsequently Merritt asked a banker friend at lunch to name the most promising of all markets for manufacturers, and the banker picked electronics, turboengines, and plastics, especially Fiberglas products. Merritt chose Fiberglas, visited two Owens-Corning plants and several representatives, and decided to make coated Fiberglas fabrics. Since then, he has acquired new machinery and technical personnel with Owens-Corning's help, and in seven years, the company's sales increased sixfold, to over $3 million.

In large companies, the choice of new methods is just as personal, independent, and varied as it is in small companies. But size alone may affect the choice in several ways. For one thing, as the levels of management multiply, top management becomes more interested in over-all techniques like Organization Planning or

P & C, and less absorbed in technical production methods. Since there are more executives, there is more chance that management will be aware of more techniques. In the course of a year, for instance, about 100 Boeing Airplane executives travel around attending conferences of the Aircraft Industries Association.

Big companies are also able to prejudge some methods by trying them out in one department or division. However, many new management techniques, such as Executive Development and Long-Range Planning, are too long-term or all-inclusive to be tested on a small scale. Others, like Profit Sharing and Salesmen's Compensation plans, are likely to provoke resentment if tried out on a sample basis. In such cases, top management commonly judges a new method by what executives have heard or read about other companies' experience with it. If it sounds good, a staff man may be sent out to investigate.

In a very large corporation top management's discovery and choice of a new technique is often quite accidental. This was the case with Executive Development at Air Reduction Co. The program, a sixteen-week "package" course, was first bought by the personnel manager at the Louisville plant of the National Carbide Division. Air Reduction's President John Hill heard about the course when two men who had taken it did an excellent production job at another plant. Impressed, Hill had Air Reduction's entire top management take it, including himself. The results convinced Hill the course should be given at all 175 plants.

Air Reduction's experience in adopting other methods shows how unpredictable the selection process is within a large corporation. A company-wide job-evaluation program was carried out after the industrial-relations director recommended it to President Hill, who approved it "because all successful corporations except ourselves had it, and it was necessary for proper salary administration." In this case Hill hired a management consultant to show the company how to do it.

But Hill did not call in a consultant for Air Reduction's big decentralization program, because "we can do it much better than any outsider." At the same time, the company's divisions will hire outside advice for such jobs as studying the possible savings in moving from a six-story to a one-story manufacturing operation.

It should not be assumed from these examples that Air Reduction's choice of methods is abnormally haphazard. Much the same thing goes on in practically every large corporation, and for any number of reasons. Personal relationships, past experience, company policies, and knowledge of the job to be done will affect not only top management's choice but the way in which a technique is adopted.

A company that has a policy of promoting from within, for instance, may prefer to develop its own personnel by letting them work out a sales-forecasting method; but if the sales department is weak, an expert sales forecaster may be hired; and if sales are falling sharply, a consultant may be called in to do a hurry-up job.

If top management is primarily interested in manufacturing, not sales, it may think that a good new sales manager is all that's needed; but if selling is management's main interest, a firm of consultants may be called in on the ground that broad, outside experience with sales problems is essential. Or the consultants may be used to find an outstanding sales manager.

Management, however, often has less rational reasons for calling in consultants. Both large corporations and small family-owned companies have used them to settle internal quarrels or to act as scapegoats on such embarrassing jobs as removing inefficient executives. The fact is that managements that use a consultant are simply using another technique, and the choice here is generally no more informed than management's choice of other methods.

As a fairly typical case, take the experience of President William

Dolle of Cincinnati's Lodge & Shipley Co. (machine tools). In 1952 Dolle thought that a psychological-testing department would help solve the company's personnel problems. Having heard that National Cash Register in Dayton had a lot of experience with testing employees, he visited National Cash's training director, who advised him to get a consultant.

After checking briefly with some Cincinnati companies, Dolle hired a local consultant who had been calling on him for over five years. But he soon concluded that the consultant's program "didn't fit our needs," and began searching for another consultant. Going back to National Cash, he found it was using a New York firm that had also done work for several Cincinnati companies.

Dolle investigated the results at one local company, chiefly by listening to the industrial-relations staff tell him what a good job the firm had accomplished. He called in the firm's president, explained the kind of testing program he wanted, approved the plan the consultant proposed, and signed a contract with him to set up a psychological-testing department that could be carried on by trained employees.

Not so typical, but indicative of both the perils and the accidents in choosing consultants, is the experience of President F. H. Bucholz of the Omaha Steel Works. In 1946 Bucholz set out to reorganize the management of what had been a one-man company, and from business friends and Chicago's First National Bank he secured the names of four consultants, three of them in New York and one in Chicago.

Over the next two years Bucholz had a two-hour session with the head of each firm and outlined his problem, emphasizing that for the present he wanted only a management-reorganization program. But when the four firms submitted their recommendations, each proposed a complete overhaul of the company. Bucholz promptly

shelved all their proposals. "They didn't sell me on the idea that what they would do would be worth the chips, and they weren't willing to move at our pace."

Quite unexpectedly, Bucholz soon had the consultant he wanted. A roving one-man firm named H. Geddes Stanway, a former member of one of the firms Bucholz had interviewed, called on Bucholz and impressed him with his experience, but also with the fact that "he was there." "For the first time," says Bucholz, "I was face to face with the guy who would do the job, and he was willing to follow our pace." After four of the company's top executives had also interviewed Stanway, he was hired, and his fifty-page report, submitted at the end of nine months, became Omaha Steel's management bible.

Finding a good consultant may be largely a matter of luck, but some old hands at the business have found ways of reducing the risk. For example, President Charles Percy of Bell & Howell Co., which has been hiring consultants off and on for twenty years, believes in seeking outside advice "only as a last resort." He relies on his own staff to devise methods to fit the company's requirements. Less than 1 per cent of the company's problems, Percy estimates, can't be solved internally, and on these consultants may be retained.

Bell & Howell's cautious system of choosing consultants is illustrated by the way it found the firm that revised its work-measurement system. Management felt sure that the Bedaux system, which a consultant had installed eighteen years before, could stand revision. But it was the company's work-measurement staff that had recommended calling in a consultant when they found they were so wedded to the old system that no one could think of any major improvements.

A vice president and the chief industrial engineer spent more than three months interviewing six firms whose names they had secured from other companies and magazine articles. The two men

not only talked with top executives in each firm but also exan all other personnel who would be involved in reorganizing E Howell's system. Then they got each firm's complete list of cl and visited those companies that had hired the firm only on find out why these clients didn't come back.

When this process had narrowed the choice down to one Bell & Howell's investigators reached a definite understar with this consultant on three points: (1) the objectives o program must be clearly set; (2) the fee must be agreed upc advance; (3) the time required for the job must be fixed, down to the date on which the consultant would depart.

Such a selection system is not openly favored by many cor ants. Even large, well-established firms understandably pref have their services taken on faith and the recommendatio other clients. This is the way, for example, that one big New firm, Rogers, Slade & Hill, secures 90 per cent of its clients. I ever, partner Arthur Slade readily admits that if *he* were a m facturer he would systematically investigate consultants before ing them.

Slade's series of checks would start with asking the Associa of Consulting Management Engineers for its catalogue descri the services offered by A.C.M.E.'s exclusive * group whicl cluded forty-one member firms in 1954. After choosing per four consultants on this superficial evidence, Slade would A.C.M.E. to recommend confidentially the best firms for his p lem, and this might eliminate one of Slade's choices. A fur check with banks might cut his list to two. Then he would, Bell & Howell, investigate each firm personally, especially the to be assigned to the job.

Note that, unlike Bell & Howell, Slade does not stress chec

* Many reputable firms are not included, because they are too specializ are not interested in joining. At least one has been kept out by persona tagonism.

on consultants through the testimony of their other clients. His professional position is that the good will of a firm's clients is a valuable asset that may easily turn sour if the clients are continually asked to testify for the consultant.

Other consultants, however, are not so squeamish about using clients as references. Some, like George S. May Co. of Chicago, use testimonial letters as direct-mail publicity. Although May claims that over 85 per cent of its clients are satisfied, the firm's records show that less than one out of nine of the 19,160 customers served during 1941–1950 returned for advice. Some firms serve three out of four clients more than once.

But there are many other ways managements can check their judgment of the ability and reliability of consultants. One way is to see if the firm is willing to have its proposed recommendations and program investigated by another firm. Management can also be on the lookout for practices that most well-established consultants consider "unprofessional."

A.C.M.E., which has been trying since 1930 to raise the business standards of consultants to the level of a profession, holds that management should beware of the following practices: high-pressure salesmanship that promises quick, sure results; preliminary surveys offered "cold" at a fixed fee; consulting services offered by machinery or equipment manufacturers; consultants using their homes as offices; requests for fees in installments or in advance; offers to consult at a low fee until savings are shown.

Yet even A.C.M.E. admits that many reputable firms can be found doing some of these things. The fact is that there is no sure way to prejudge a consultant's worth. Possibly one of the poorest yardsticks is the consultant's fee. On one government project, for example, the bids of six firms ranged from $15,000 to $65,000 and the top figure was more than twice the bid of one of the most reputable firms.

Unfortunately, perhaps the best test of a consultant—his ability to get company personnel to cooperate in adopting a new technique—cannot be made in advance. However, if a consultant refuses to take on a job until he has interviewed all personnel involved, management at least can be sure he knows his basic function is to get the company to carry out the work.

If a company is big enough and can afford the outlay, it can try the system of choosing both management methods and consultants that General Electric has established. Indeed, this system comes about as close to solving such problems as management is likely to get.

After ex-President Charles Wilson departed for Washington in 1951, G.E.'s President Ralph Cordiner began speeding up the reorganization of the company's management structure. Among other things, he set up a separate Management Consultation Services Division to expand the preliminary work on methods that one of G.E.'s managers had started in 1945. And to run the new division Cordiner picked Vice President Harold F. Smiddy. The choice was significant.

Smiddy had spent twenty-three years in the utility business, winding up with Ebasco Services, Inc., a management-consultant offshoot of Electric Bond & Share. He left Ebasco in 1942 to become a senior partner of Booz, Allen & Hamilton, one of the big, high-paying consulting firms, and for five years counseled a variety of managements on a variety of corporate problems.

But in 1948 Smiddy, like many other able consultants, succumbed to the offer of a big company and gave up consulting. Cordiner put him on the president's staff at G.E. and shortly made him manager of its Chemical Division. Smiddy was also soon given G.E.'s Air Conditioning Division to handle, and within nine months was awarded a vice presidency. He thus had an inside, firsthand knowledge of the company's management and operations when Cordiner tapped him for the job of heading up a consulting

service inside the company. Though Smiddy knew this meant that as an insider his advice might tend to be less objective, he took the job.

Smiddy's division has a staff of six G.E. managers who, with him, "do nothing but think about management principles and their application to the company's problems." The men are largely on their own (one of Smiddy's aims is to abolish "assistants" by getting management to delegate authority), and after a year or so they usually leave to take over important jobs elsewhere in G.E. The division has concentrated mainly on Organization Planning, and has analyzed and suggested the reshuffling of functions and responsibilities in nearly all of G.E.'s thirty-four divisions.

Smiddy and his men, however, take on any management job—such as a survey of G.E.'s Executive Development programs—that needs doing. If possible, they try to work out new methods internally, but they also cull publications for new ideas, attend meetings and seminars, talk with G.E.'s managers, customers, suppliers, and any company that is struggling with similar problems. And they help plant managers choose outside consultants, which is no small job since G.E. is one of the biggest users of outside advice in the United States. G.E. problems may keep as many as fifteen major consultant firms busy.

Smiddy's experience as an ex-consultant is valuable to G.E., since he personally knows many firms and keeps up with what they are doing. He also knows that the most expensive way to hire a consultant is to ask a firm to come in before management has found out what its problems are. When a problem calls for expert help, however, Smiddy may be able offhand to nominate the best firm. If not, he does what any other management can do—calls in several consultants and judges them on how they discuss the problem. He won't accept any packaged programs.

There is obviously no great secret to G.E.'s system for choosing new techniques. Smiddy has, in effect, merely organized G.E.'s

search. Much of the search is outside the company. As he puts it, "We'll take any good idea that's floating, any place, any time." But he knows that the most important part of the search must first be done inside the company. "Management," Smiddy reiterates, "needs to make a conscious effort to become aware of its problems by internal research, and not just have a secret service find out what others do, and then make a Chinese copy."

In short, the prime question about management methods is not "What technique?" but "What's the problem?"

COMMUNICATIONS

Almost every management problem in recent years has been blamed, at least in part, on failures in corporate communication. And the blame has often been rightly placed on the psychological or sociological weaknesses of executives. But there are other more tangible causes of poor communication inside a company. One is the once-lowly house organ, many of which of late have been slicked up and used by management to channel sermons on free enterprise to employees. Another is the huge torrent of paperwork that clogs up high-cost office space. And ironically the newest hazard to communication appears to be the tendency of management to communicate too much. The ways in which executives have grappled with these three communication problems are explored in the next chapters.

NINE

How to Play the House Organ

IT USED TO BE POSSIBLE to describe the contents of a company magazine or newspaper without reading it. You could be fairly sure it would contain a "message" from the president, an article on the company's "progress," some news stories several days or weeks old, pages of social notes, gossip, promotions, and service records, the standings in the employees' bowling league, a few jokes, a badly drawn cartoon, and an inspirational quotation or two. House organs today still may include most or all of these things, and many remain what one company editor calls "paragons of pap and paternalism." But a lot has happened to house organs since management seriously began trying to use them to "communicate." Many have been so slicked up, enlarged, and otherwise revamped that they seem as professional as the newsstand journals they imitate. Many have taken to preaching vociferously about the American Way, while others are trying to "educate" employees more subtly. And a few are sincerely laboring to squeeze all the pap out of their pages.

What makes these changes significant is the fact that house organs have multiplied so fast in recent years. Before the war there were perhaps 2,000 house organs; now there are over 5,700 whose titles are recorded by *Printers' Ink*, and possibly 5,000 more that are unknown outside their companies. Surveys have indicated that three-fourths of all big companies now have house organs, and some corporations have them by the dozen—du Pont has seventy-five. There are "internal" house organs (for employees, chiefly), "ex-

ternal" house organs (for dealers, customers and friends), and "internal-external" house organs (for everybody). The Big Two among house organs, "internal" and "external" respectively, are General Motors' *Folks* (circulation 500,000) and Prudential Insurance's *Prudential Family* (circulation 2,500,000).

There are house organs aimed at a special audience (General Electric's *Adventures Ahead* is written primarily for teen-age children of employees). There are house organs that make no reference to employees or the company (Louis Allis Co.'s *Messenger* prints only uplifting verse and ads of its electric motors). There are house organs such as *Scope*, which The Upjohn Co. publishes for doctors, that are more elegant than any newsstand magazine. And there are house organs that have become major commercial publications (A & P's *Woman's Day* sells for 7 cents, has a guaranteed circulation of 3,750,000, and its 1951 advertising revenue was over $9 million).

House organs are not merely numerous and varied. They constitute one of the most curious operations in industry, and one on which industry now spends well over $100 million a year (see pages 150–151). For one thing, the operation has acquired many of the trappings of a separate industry. House organs have become a profitable market for scores of technical, art, and news services, and for paper-makers who solicit this trade with their own house organs, such as *Stet*, subsidized by the Champion Paper & Fibre Co. The market has its own consultants, like Newcomb & Sammons of Chicago, which charges $10 a year for its four-page monthly tip sheet, *Score*. And hundreds of house organs serve as a market for publicists and free-lancers.

At the same time house-organ editors have banded together in local, national, and international associations, which, like craft guilds, try to improve their members' professional status. The associations publish their own trade journals, hold numerous conventions, run contests to stir members to do better, and conduct

surveys to find out how editors operate and what their troubles are.

The whole house-organ field, in fact, is crisscrossed with surveys. Company editors, who are anxious to convince management that they are doing a job, periodically check up on readership, some using questionnaires and interviews, others simply counting the copies that get tossed in the wastebasket the day the issue comes out. And managements in turn have hired professional surveyors, like Opinion Research Corp., to give their house organs a going-over. Finally the professionals have looked extensively at house organs in general. Since 1947, Opinion Research has been examining the publications of 100 big companies and has produced several major reports.

It is not surprising that house organs should be a subject of scrutiny by survey; so long as their circulations are involuntary, there is no other means of measuring their popularity. But where there are so many surveys there are obviously troubles. The biggest trouble, as many of these surveys have shown, lies with management. For it is management that is basically responsible for what is disturbing house organs and their editors, especially the editors of "internals," with which this chapter is primarily concerned. And the generally mediocre caliber and status of the editors themselves provide the clearest evidence of management's mistakes.

Ironically, it is the I.C.I.E. (International Council of Industrial Editors) that has furnished the most convincing evidence. In a 1952 survey the council revealed these facts about 900 "internal" editors: three-fourths of them have held their jobs five years or less, 60 per cent spend half or less of their time on the house organ, and only one in six is a full-time editor; two-thirds are under forty and less than a third have had previous news or feature-writing experience; for three out of five, getting out the house organ is a one-man job; and nearly three-fourths of them are paid less than $500 a month.

It is clear that while many managements have lately taken communication seriously, few have taken the house-organ editor's job

seriously. And it is not surprising that one of the sharpest complaints of many editors—which they rarely mention outside their confidential conclaves—is that while management will spend big money on publishing and distributing their handiwork (and bigger money on personnel and labor relations that the house organ is expected to promote), management will not pay the salaries necessary to attract and hold good editors. As a result, the ambition of many editors is to move "up" to public relations or advertising.

Moreover, among those editors who stay on, most would like never to hear or see the term "house organ" again. They think it is undignified and faintly indelicate ("An organ," says Lelah Nell Masters, managing editor of Cone Mills' *Textorian*, "can be anything from an instrument of wind to a gizzard"). The I.C.I.E. has long been "taking up cudgels" to educate outsiders to use the term "company publication."

This professional sensitivity indicates the confusion that exists between the editors and management over the function of employee publications. Many company editors cherish the idea that their publications fail to communicate because management is unwilling to tell employees what they want to know. As one editor put it, "We are an internal publication, yet at times company news has to come out in the *Saturday Evening Post* before we can break it in the employee publication." Complaints against management restrictions were voiced by over half of the "average" editors in the latest Opinion Research survey.

Behind many of these complaints certainly is the fact that managements are generally reluctant to divulge much information that an eager house-organ editor may be looking for. While this reluctance may often be justified, it may also be due to the fact that few executives know what kind of editorial material and treatment makes employees like and believe in their house organs. But some of the editors' complaints about restrictions are undoubtedly due to the fact that they do not accept the basic nature of corporate

journalism, *i.e.*, that it is still essentially not journalism but a mixture of advertising and public relations.

The mixture may look like journalism but its prime function is to sell the company and management to employees, customers, and the public. In view of this, it is obviously just as irrational for a company editor to fret about "editorial freedom" as it is for a managing editor to ignore the viewpoint of his publisher. The house-organ editor cannot expect to be completely objective about his company, its employees, and products. His job is to create good will, which potentially is a trickier business than reporting.

Most company editors appear to recognize what their job is, for the great majority profess that the first objective of their publications is to build employee morale. In trying to do this, however, editors have simply adopted the language, taboos, and techniques of publicity. As in advertising, the guiding principle has been to accentuate the positive and ignore the negative. To qualify as news, a fact or event has to be favorable, pleasant, and encouraging. And as in public relations, the rule has been that nothing should be printed which might offend a reader.

The result is that practically all house-organ editors have resorted to the timeworn devices of rural journalism: personal news about births, marriages, hobbies, promotions, vacations, sports, parties—any sort of chitchat that would put an employee's name in print and possibly make him feel he belonged to "a big, happy family." Chitchat is still the mainstay of almost all house organs, for many company editors contend that it is the best way to gain the worker's good will. And house organs that have dropped chitchat have later had to restore it to satisfy employee complaints. But readership surveys in recent years have shown that what most employees want to read even more than chitchat (and in addition to it) is news about their company. Specifically, they want news about those plans, policies, and operations that directly affect the security of their jobs. Presumably a lot of company editors have long known

The House-organ Business:

The house-organ publishing operation is so big and sprawling no one has yet succeeded in measuring it. The I.C.I.E. (International Council of Industrial Editors) concluded from a recent survey that the combined budgets of 6,500 house organs totaled $112 million, and this does not include the costs of thousands of house organs whose existence is unreported. The I.C.I.E.'s estimate of combined monthly circulations of the 6,500 publications is 70 million, and the number of readers has been estimated at over 100 million.

Moreover, these rough estimates may even be too low. The Gebbie Press in New York published a catalogue in 1952 giving for the first time actual or estimated circulation figures as supplied by the editors of nearly 1,400 house organs. The combined circulation of this group alone came to 55 million—which was slightly more than the combined 1952 circulations of all daily newspapers in the United States. In the Gebbie catalogue there are ten house organs that have given circulations of a million or more, as follows:

Prudential Family (Prudential Ins.) 2,500,000

Mutual Moments (Mutual Benefit Health & Accident Assn.) 2,000,000

Ford Farming (Dearborn Motors Corp.) 1,500,000

The Job-Rater (Dodge Division, Chrysler Corp.) 1,500,000

Ford Times (Ford Motor Co.) 1,400,000

Friends (Chevrolet Division, G M.) 1,400,000

People and Places (DeSoto Division, Chrysler Corp.) 1,100,000

Buick Magazine (Buick Division, G.M.) 1,000,000+

Hometown–The Rexall Magazine (Rexall Drug Co.) 1,000,000

Chrysler Events (Chrysler Division, Chrysler Corp.) 1,000,000

Even these are not the ten biggest house organs, however, since the Gebbie catalogue lists only those publications that will use material from public-relations departments and agencies, free-lance writers, photographers, and other outside sources. Some mag-

azines will pay well for such material; free-lancers receive a standard rate of 10 cents a word for contributing to *Think* (circulation 80,000), organ of International Business Machines.

What is more, this house-organ market is completely non-competitive. Material sold to one magazine, or planted in it by a public-relations man, can easily be sold to or planted in many others, even in the same industry. It was this fact that moved Con Gebbie, a former Shell Oil public-relations man, to compile his catalogue. Having sold one article to eleven different house organs, he knows what the traffic will bear. And he has had little trouble selling his catalogue at $20 a copy.

What Gebbie's catalogue does not show is how heavily some big companies have gone in for employee house organs. For example, in addition to fourteen "externals," which go to over 4 million customers, stockholders, and friends, General Motors publishes some thirty-seven "internals," including *Folks* (circulation 500,000—biggest of all internals), the *Executive Bulletin* (for 90,000 salaried personnel), and thirty-five newspapers (circulation 300,000). Like most companies, G.M. does not reveal what its publishing program costs, but the figure is certainly many times the average house-organ budget of $47,000 that Opinion Research found among 100 big companies. Actual budgets vary widely. International Harvester has spent around $500,000, excluding salaries and overhead, on three slick-paper magazines (circulation 195,000).

On the other hand, Buttrey Stores Inc. (women's apparel) spent only $30 a week, including overhead, to put out 300 copies of its mimeographed *Teamwork*. The I.C.I.E. reported per-copy costs of 3 cents to $1.

Most managements apparently think their employee house organs are a good investment. Among those in the I.C.I.E. survey, over half have been increased in size since the war.

this, but it is only since the war that many managements have been persuaded that house organs should carry more practical, realistic information.

During the war, house organs had depended on chitchat and "war effort" stories in order to build morale, and hundreds of new company magazines and newspapers were started for that purpose. When the shooting stopped, all but a few of these newcomers continued, for most managements were beginning to believe that "communication" was the thing that would put an end to labor-management friction. Unfortunately, however, a great many managements began using the company publication as a pulpit from which they proclaimed in ponderous phrases the virtues of Free Enterprise. And their editors have continued to hammer this new line with a barrage of news, stories, and articles that are monotonously heavy with propaganda about the benefits of the American Way of Life.

The naïveté and futility of this effort to "communicate" have been thoroughly exposed. Management's basic mistake has been to assume that employee antagonism to management was due to misinformation and ignorance about the capitalistic system, and that this antagonism could be dissolved by educating the worker and selling him the system with the same technique, speed, and high pressure that industry has used in selling him breakfast foods and refrigerators.

One of the first house organs to start selling economics to employees was du Pont's *Better Living*, a slick, *Life*-type magazine, which first appeared in 1946 and has since steadily featured the theme of HOBSO ("How Our Business System Operates"). Du Pont was also one of the eighty clients of Opinion Research Corp., which in 1947 produced its first general survey on the contents and readership of house organs. The survey's major conclusion had the Free Enterprise ring: company publications should clearly "interpret" management's philosophy and aims for employees, and "ex-

plain to [their] readers the basic economics of the company and the capitalistic system."

This conclusion was based largely on the fact that though articles and editorials on the American Way generally scored low, they were often well read if they were skillfully presented. Even the "President's Letter" got attention. To be sure, there were some negative considerations. For example, few readers could remember what the President's Letter said, and in one house organ containing ninety-seven items, the founder's turgid prose took ninety-seventh place. Furthermore, this survey also showed that a lot of managements and company editors were opposed to high-pressure methods of selling economics. Out of sixty companies studied, only a third were intent on giving their employees the "strong" editorial treatment; another third were using propaganda "cautiously and subtly"; and the remaining third simply followed a "hands off" policy. ("Give them the facts and let them draw their own conclusions.")

But personal interviews with nearly 1,200 employees in five big companies supplied the survey's most surprising and significant findings. For in each company well over two-thirds said they believed what they read in their house organs and said they took them home to their families. Most astonishing of all, approximately two out of three employees stated that they would be willing to *pay* something for what their companies were publishing.*

The discovery that most employees seem to read and like their house organs has been made by many managements that have run surveys of their own. And many, like Opinion Research, have apparently taken such evidence to support their conviction that house organs are excellent instruments for selling employees on the economic facts of life.

Often house organs have become openly loaded with what one

* Charging for a house organ is almost unheard of. However, at Elgin National Watch Co. 96 per cent of some 3,000 employees have voluntarily subscribed 50 cents a year for the monthly *Watch Word* (which costs the company about $7 a year per subscription).

editor has called "benign hogwash." For example, Weirton Steel's *Employees Bulletin* has run a regular feature, "Free Enterprise Keeps the Line of Opportunity Open," showing how various managers have risen from "their humble beginning with the Weirton organization."

In other companies the house organ has been revised, or a new one started up, to sell the American Way more indirectly. Thus Western Electric brought out a company-wide magazine, *WE*, whose announced objective was to "tell the story of Western Electric mostly in terms of people." Chitchat was left to the company's thirteen plant and division newspapers, and *WE* concentrated on stories that showed how employees lived, worked, and played. Annual reports and other economic material were excluded. *WE*'s editors were gratified when they polled employees and found that more than half were reading most or all of the magazine, and only 8 per cent were just glancing through it. Though the editors knew that the articles employees like or remember best might not directly concern the company, they felt sure that indirectly these helped sell the company as well as the American Way.

There are, however, still a good many company editors who think that almost any employee will sniff scornfully at this kind of oblique salesmanship. They prefer the more direct approach of the news story that tells the employee something he may want to know. Like *WE*'s editors, Lee Sagers, editor of Sears, Roebuck's monthly tabloid *News Graphic* (circulation 134,000), has left chitchat and vital statistics to some forty local Sears publications. But Sagers has run whatever he thought was usable news. "Our yardstick is whether an item is of general interest and whether it would be read in a regular daily paper." However, no bad news is printed about employees, and "even if we run a story about a fire on company property we carefully quote a fire marshal if it was caused by a careless smoker." Sagers has tried to keep the propaganda at a low pitch

("We don't touch free enterprise"), and the editorial column was dropped after a readership survey.

Few house organs have tried to carry out a really aggressive news policy. Perhaps the boldest effort among large companies is to be found in the thirty-five plant newspapers (circulation 200,000) published by General Electric. Though not always successful, these papers work hard to publish all news that affects employees, including stories on antitrust suits against the company and how G.E. is affected by heavy inventories, strikes, etc. Local editors have been given a free hand, although, of course, an editor could be fired for running a story too hot for management to take. Whenever possible, important company news has been released to each paper over a connecting teletype circuit on the day it is broken to the public press.

At the same time G.E.'s employee and plant community-relations vice president Lemuel R. Boulware has used the company newspapers to drive management's "messages" across to employees. Every other week or so he has sent the papers the Message, which expounds on such subjects as "What Does G.E. Think about Unions?" and "Who Got the Customers' Dollars?" Occasionally the editors simply have tossed the Message in the wastebasket, and when they ran it, it has been printed in the form of an advertisement. G.E.'s policy is to speak out on all controversial subjects in these ads, and when the ad is of general interest Boulware has had it reprinted and mailed out under a separate heading ("The Commentator") to thousands of editors, writers, clergymen, Congressmen, and other "thought leaders." A picture supplement on employee relations has also been sent to the plant papers, and sometimes this has needled managers into improving local policies and working conditions. A feature on an ideal cafeteria setup, for example, moved some managers to improve their cafeterias.

No matter how outspoken a house organ may be about management and the company, most employees are likely to rely on their private grapevine for the "real" news. The grapevine appears to be unbreakable, but for years many company editors have been trying to short-circuit it through question-and-answer columns. Any management that agrees to stick its neck out in this way can, of course, expect a lot of potentially embarrassing queries. Why were men laid off in Department 26? Is it true the company plans to move south? How come the boss's son got that cushy job? When, as often happens, the questions probe hard into management's policies, prejudices, and politics, the replies may be so evasive or so carefully hedged with legalisms that the truth is invisible.

But some managements are really trying to give plain answers to any and all questions, however trivial they may sound. When a worker at Abbott Laboratories, for instance, asked, "Why aren't women employees allowed to take rolls from the men's cafeteria and eat them in their washrooms?" the brief answer was at least understandable, if perhaps not totally satisfactory: "For sanitary reasons—crumbs of bread draw cockroaches and mice and ants." More frequently, replies are much longer than this. "The Grapevine" in G.E.'s *Schenectady Works News* has often filled ten columns, and a former works manager, L. J. Male, who personally wrote the replies, sometimes devoted several hundred words to answering one complaint.

Here is one of the shorter samples:

"GRAPEVINE: If an employee does not belong to a union, has he or she the right to go to the General Foreman with a problem if the shop foreman does not give a satisfactory answer? If they are to listen by Company rule, why do some of them refuse to listen to our remarks?

"FACT: I do not think you have to consider whether or not you belong to a union. If you, as an individual, have gone to your fore-

man on the matter and feel that the foreman has not tried to or cannot understand your problem, then I believe you have the right to go to your general foreman.

"Regarding your statement that some foremen refuse to listen to your remarks—the following may not be true in your case but I do want to point out that many employees broach the same problem time after time to a foreman and he cannot be expected to give it a great deal of time if he has already considered it and given what he thinks is a fair answer.

"So, if you feel that the foreman has considered your problem and still not understood it, then, as I have said, it is perfectly legitimate to call in the general foreman for a decision on the matter."

Replies of this kind—personal, frank, tactful, and uncondescending—may easily be the most read items in a house organ. And presumably they can do a lot to help sell management to the employees. However, "rumor clinics" have some limitations. They not only put management continually on the defensive but also deal almost constantly with local and individual gripes and problems, rarely with management and company problems.

Few managements are willing to discuss openly the "controversial" questions, notably those about operating losses, competition, and unions. Here and there, however, a house-organ editor has had the daring, skill, and freedom to treat these touchy subjects realistically. In the fall of 1949, for example, Douglas Mueller, editor of Seiberling Rubber's newspaper, *The Seibeneer*, headlined the fact that the company lost $247,525 in the first six months of the year, "the first time Seiberling has been 'in the red' since 1936, and the first loss by any major rubber company since the war." His story reported Seiberling's unfavorable position in replacement tires, and its inability to cut costs as fast as competitors were cutting prices. Layoffs, past and expected, were detailed in the other major

page-one story. The rest of the issue was devoted almost entirely to pictures and stories showing specifically how each department could help cut costs.

A famously outspoken house-organ story is the one Max Bass, publications manager for Caterpillar Tractor, ran in Caterpillar's magazine, *News and Views* (circulation 40,000). Bass wanted to wake up Caterpillar's employees to the tough competition the company was facing, and he let them have it in the September, 1948, issue. On the cover he ran a large, handsome photograph of a tractor and diesel-engine exhibit at the Chicago Road Show—the exhibit of International Harvester, "Caterpillar's greatest competitor in the earth moving business." Inside the cover his editorial, "How to Go Out of Business," opened bluntly: "Somewhere in this plant there are people, no doubt, who think that the only good equipment in the earth moving field is painted Caterpillar yellow. To them machinery painted red, orange, or green is strictly of Tinkertoy caliber. If there are such smug people here, they're doing the Company a great injustice. . . ." And Bass pointed his warning squarely at complacent engineers, metallurgists, superintendents, tool designers, accountants, merchandisers, purchasing agents, machine operators, inspectors, and salesmen.

The real eye opener, however, was the feature story headed, "Our Competitors Are Capitalizing on Our Failure to Produce. We Are Losing Customers Who Have Tired of Waiting for Deliveries." Bass drove the point home with a six-page story that named twenty-seven competitors that were getting into the company's markets. The threats of each competitor's equipment were underscored in pictures and captions that cited their virtues and weaknesses, often with a candor that would ordinarily be heresy in a trade journal and blasphemy in a house organ. For example: "The TD24 shown here is IH's [International Harvester's] largest tractor and they call it 'the world's most powerful.' It delivers 140 drawbar horsepower against the D8's [Caterpillar's] 130. It too costs about $3,000 more

than the D8. Unfortunately for IH the TD24 has developed transmission and rear end trouble and has been removed temporarily from production pending engineering changes."

The reaction to Bass's story was also extraordinary. For one thing, Caterpillar's sales department used the feature for training salesmen, and the sales director recommended that the editorial be hung in every dealer's office. For another, Bass had to run off 5,000 reprints to satisfy the requests from competitors, suppliers, and other manufacturers, some of which reprinted the feature in their own house organs. The hell of it, as Bass frankly admits, was that, although employees had shown a lively interest in the story, his crusade brought no increase in production at Caterpillar's plants. "Any editor," he observes tartly, "who claims the information he presents in his publication to be a great stimulus to production and morale is taking liberty with the truth. . . . We're not able to do the job alone."

The majority of company editors are still not convinced that a house organ should carry news about union activity. Their common argument is that since management is paying the bill to present its own ideas and cultivate employee good will for the company, it is justified in leaving union news to the labor papers. Most union leaders would probably prefer to have it that way, since it is obviously the job of their publications to sell unions to employees. Many company editors think the labor press is outselling the company press simply because the former deals with "real" news—grievances, wages, layoffs, etc.—which house organs generally continue to ignore.

The argument for including union news in house organs, of course, is that this will improve employees' belief and confidence in what management says. Yet there is at least some evidence that union papers have to worry about credibility more than management does. In 1949 Opinion Research found that more workers in two big companies believed their house organs than believed their

union publications. At any rate, in recent years many house organs have stopped pretending that unions don't exist, and some, like Goodyear's *Wingfoot Clan*, have printed news about union nominations and elections, contract signings, grievances, etc.

Occasionally a house organ has gone much further, and has featured union news almost as boldly as others have featured free enterprise. Monroe Calculating Machine's *Keynote*, for example, has pledged itself to report union news "with complete objectivity." Even when Monroe workers voted to stay with the Communist-dominated national U.E. union, editor Edna M. Sterner reported the issues and featured a picture of elated local officers.

Despite all efforts to eliminate "the house-organ flavor," the fact remains that no one yet knows what kind of publication is most effective in selling the company and management to employees. Although surveys have shown that workers most want or like "news about the company" which concerns them, the fact is that this might be anything from a layoff to a safety award. And a mimeographed sheet may hold their interest far longer than an eye-catching imitation of *Town & Country*.

More and more managements are trying to find out how well their house organs sell. And in an effort to tell them, Opinion Research undertook a survey of house-organ "impact," which indicated that only about one employee in three can recall the major points of a house-organ article or item he has recently read. No one knows whether this is high or low, since there are no comparable figures on the recall of matter in commercial magazines and newspapers. Nevertheless, such surveys may tend to reinforce many managements' conviction that a house organ should sell employees on "the big issues."

This would be unfortunate, for wherever such conviction exists, it is clear that communication between management and employees is still feeble. It shows that management has failed to understand

that the prime function of a house organ should be to create good will for management and the company, and not to "educate" employees on the economic facts of American lite. There is a lot of historical evidence that the effort to educate others is far more likely to produce resentment than good will.

What creates good will, of course, is the big question. Apparently most managements now think that a good way to create good will is to get the house organ into the home. A majority are mailed directly to the employee's home, and editors commonly include a woman's page in the hope that this will bring the wife into the company family. A few editors have gone further and have tried to draw the community into the corporate circle. The editor of G.E.'s Erie, Pennsylvania, *News*, for example, has written a weekly column for the local paper in which he discusses G.E. doings of local interest, and includes selected items from his paper's question-and-answer column. And in Mooresville, North Carolina, instead of publishing a house organ, the Mooresville Mills has taken two pages each week in the local paper where the company presents stories and pictures of its employees at work and play. This tactic has also been promoted by consultant Newcomb & Sammons, as the answer for "company towns" and firms that cannot afford to publish and distribute a house organ.

Conceivably, if this experiment should spread and many house organs were transformed into house ads, managements might begin to take the company editor's job as seriously as they now take the advertising manager's job. The trouble then, of course, would be that the employees would probably complain about the lack of chitchat, and the pressure would be on to put the company back in the house-organ business.

TEN

Money in the Wastebasket

A CLEAN-TOPPED DESK has long been the symbol of American executive efficiency. The assumption has been that an efficient manager is one who stays clear of paper work and devotes himself to decisions, policies, and people that will make money for his company. But the fact is that the work of executives is cluttered with paper. Moreover, some managements have lately begun to realize that a far better symbol of executive efficiency would be a full wastebasket, and are acting accordingly.

Yet paper work remains undoubtedly the least efficient operation in U.S. industry, largely because executives have paid little attention to the papers choking up their offices. Though the president's desk may remain relatively bare, he and his staff normally spend most of their time creating or shuttling memoranda, letters, and reports, and their brief cases bulge with reading matter to be absorbed at night. Furthermore, management is responsible for the torrent of paper work that is originated, multiplied, and pumped through the channels of business offices and eventually poured into the files.

Business today moves on this flood of paper. And most managements, bent on raising productivity, sales, or what not, have accepted as inevitable—and often as a sign of healthy growth—the expansion of clerical production. In 1920 employees in manufacturing industries outnumbered clerical workers by about four to one; today, the ratio is only two to one. In fact, there are now as many

clerical employees (nearly 8 million) as there are agricultural workers. The introduction of carbon paper in the nineteenth century gave paper work its greatest boost, ushering in what Luther Gulick, a management engineer, calls the "carboniferous and neo-lithographic age." In Europe some companies have restricted the fetish for making carbon copies by a simple system of colored pencils.* But carbon copies are a standard addiction in the United States, and paper work everywhere has been successively expanded by typewriters, duplicators, tabulators, and a whole slew of other office machines.

No one knows how large the output of paper work is, but it is unquestionably mountainous. When Westinghouse decided to clear out its dead files some years ago it destroyed 120 carloads of miscellaneous papers and transferred another 300 carloads to a five-story archives building. Similarly, Equitable Life in 1938 found that its accumulation of old papers would make a pile fifty-one times as high as the Empire State Building. Though a continuing housecleaning program has since reduced the pile by more than half, the company's store of correspondence is increasing at the rate of 5 per cent a year.

The accumulation of business papers began to get the attention of many other managements three or four years ago. When the atom-bomb scare in 1949 sent companies rushing to microfilm their corporate records, many executives saw their paper-work problems for the first time. And the shortage of office space has made many realize how much their office and filing systems were costing. Some companies, like Equitable, have done their own housecleaning. Some have hired experts from Remington Rand, Shaw-Walker, and other office-equipment makers to show them what to do. And some

* Instead of rewriting a subordinate's report and distributing copies around the office, some European managers are required to write their comments and criticisms on the original paper, with each management level using a different colored pencil. When the boss gets the final paper, he has a revealing cross section of his staff's thinking and judgment.

have turned their problems over to an outfit named National Records Management Council, Inc., of New York, which specializes in slicing the useless fat out of hoarded papers, in both government and industry.

It was the former director of N.R.M.C., Emmett J. Leahy, who headed up the Hoover Commission task force on federal paper work. On that job Leahy's crew of records specialists applied their housecleaning techniques to the government's pile of 18,500,000 cubic feet of files. Under Leahy's program, federal agencies were soon annually destroying 2,500,000 cubic feet of records (the equivalent of more than 1,600,000 file drawers); they had reclaimed for active

---

Filing by Law

Most companies retain records far longer than is legally necessary. Their most impelling reasons for doing so are federal, state, and local laws setting up minimum—and often conflicting—retention periods for specific papers. In addition, such agencies as the ICC, FPC, and CAB have established several thousand detailed regulations of their own. Following is a sample list of federal requirements:

Type of record	*Years to be kept*	*Legal authority*
Receipts, inventories, and delivery records	*Two*	*Controlled Materials Plan*
Employee earning cards	*Three*	*Fair Labor Standards Act*
Employee earning cards	*Four*	*Walsh-Healey, Fed. Social Security, and Fed. Unemployment Tax acts*
Time cards	*Two*	*Fair Labor Standards Act*
Time cards	*Four*	*Walsh-Healey Act*
Bills of lading	*Two*	*Fair Labor Standards Act*
Payroll records	*Three*	*Antikickback regulations*
Flight-movement records	*Six*	*CAB*
Freight reports	*Two*	*ICC*
Repair reports	*Six*	*FPC*

use some 57,000 file cabinets, 78,000 transfer cases, and 1,400,000 square feet of office and storage space (50 per cent more rentable space than is in Manhattan's Chrysler Building) and had moved 1,300,000 cubic feet of papers to Federal Records Centers. All told, federal agencies saved nearly $5,500,000 in paper-work expense.

On a smaller scale, N.R.M.C. has demonstrated its moneysaving tactics to two state governments (Michigan and Rhode Island), three cities (New York, Detroit, and San Francisco), and more than forty corporations. Executives as well as burcaucrats have been amazed to discover that they can cut their office files down by two-thirds or more by destroying up to half their old records and shifting much of the rest into low-cost archives. (For a picture of what happened to the files of Pan American World Airways, see the chart on page 167.) Monsanto Chemical, an N.R.M.C. client, not only recovered thousands of square feet of office space, but cut its normal expenditures for file cabinets from $12,500 to zero the first year, and in addition abolished a $30,000 microfilming program.

Even more important than such savings is the fact that management is finally finding out how inefficient paper-work operations really are, and, in a few cases, is beginning to practice what records specialists call "birth control." The simplest tool for this is what the military services have called the "circular file," or "File #13"—the wastebasket.

The economics of creating, handling, and filing office papers is still pretty sketchy, but some figures that Remington Rand has worked out show how much economy is possible. The cost of producing the average business letter, for instance, ranges from 80 cents to $1.30, and carbon copies of correspondence comprise about one-third of the 3,000 to 4,000 pieces of paper in the ordinary file drawer. To create the contents of such a drawer costs nearly $1,000.

This is only the beginning, for Remington Rand has figured that the average cost of maintaining one four-drawer file runs around

$238 a year, and ranges from $88 up to $640, depending on clerical salaries (about 80 per cent of the total) and the number of drawers handled by each clerk. These maintenance figures do not include overhead costs of supervision, building maintenance, taxes, or working space for the clerks. Even without such overhead, the annual upkeep on fifty file cabinets would be nearly $12,000.

These figures acquire their real meaning, however, when they are related to the use that a company's management makes of its filing system. According to National Records Management Council, 95 per cent of all corporate paper work over a year old is never referred to. What is more, N.R.M.C. says that 95 per cent of the references made are to papers less than five years old. An analysis by the late Coleman L. Maze, an office-management consultant, has shown that for every hundred pieces of paper filed, from one to thirty may be called back for reference, and he held that if this reference ratio is 100:20 or better the filing system is "probably good." However, if the ratio falls below 10 per cent, there is a greater "likelihood that separate [*i.e.*, duplicate] files exist. When the reference is close to 1 per cent, it is likely that the main files will be only dead storage."

The practice of keeping tons of old papers on file is found in many of the best-managed companies in the United States. Thus du Pont by 1951 had filled its "Hall of Records" with some 280 million pieces of old paper, of which 45 per cent were war records. To take care of its normal future accumulation, du Pont either had to reorganize its record keeping or build a 28,000-square-foot addition (estimated cost, $336,000) to its storehouse. Du Pont called in N.R.M.C. to help set up a new system of record storage and control, and found that the reference ratio on its war records was infinitesimally small: an average of one reference out of each 1,000 pieces once every 576 years. This discovery alone enabled du Pont to store these files more compactly and, with other spacesaving ideas, eliminated the need for building an addition to du Pont's archives.

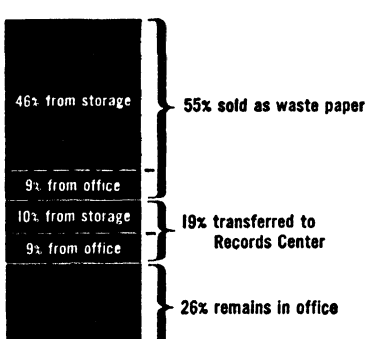
In addition to reference ratios, N.R.M.C. has three other meas-

ures for assessing a company's files. These are ratios between the number of employees and the number of cubic feet of records in the office and in storage. The first ratio to be aimed at—and one rarely found—is a fifty-fifty division of a company's files between its offices and its archives. Another yardstick is the over-all ratio that N.R.M.C. considers favorable for general offices of manufacturing and sales organizations—*i.e.*, about five cubic feet of records per employee, with only two and a half cubic feet kept in the office. At plant locations, however, the ratio should be about one and a half cubic feet per employee, with only half a cubic foot filed in the office.

In specific departments within general offices, N.R.M.C. has found that still other, much higher, ratios are allowable. However, in many companies the purchasing and accounting departments,

---

How Pan Am Threw Out Over Half Its Records



The uselessness of old files has been demonstrated time and again by National Records Management Council, Inc., of New York, a nonprofit organization started in 1947 with a $35,000 Rockefeller grant. N.R.M.C. did a typical job for Pan American World Airways. All records were inventoried, indexed, and appraised, and some were transferred to the Business Archives Center in Manhattan. N.R.M.C. then got Pan Am to approve throwing out over half its files. About a hundred tons of wastepaper were sold for $4,500. The chart at left shows the disposition of the files. Monthly storage charges on nearly 12,000 file drawers are only about 10 cents per drawer and B.A.C.'s reference service, at an average cost of 22 cents per search, gives cheap, fast access to old records.

commonly the leading corporate paper-hoarders, retain as much as fifteen or twenty cubic feet of records for every office worker. Such ratios are unhealthy, N.R.M.C. contends, and it has shown that an efficient retention and disposal program can quickly sweat a 20:1 ratio down to 10:1. With "birth control" methods, this can be further cut to perhaps 7:1, which N.R.M.C. thinks is about as low a ratio for this type of office as one can hope for. If a large company follows its recommendations, N.R.M.C. estimates that savings can go as high as $100,000 the first year. And a third or more of such savings would be in released space, which would represent a permanent reduction in overhead.

Many companies, however, have already gained sizable cash returns from the sale of wastepaper alone. In the cleanup of Worthington Corp.'s files, 154 tons of discarded paper work were sold for $3,400. Indeed, before wastepaper prices dropped a few years ago, the sale of dead files frequently nearly covered the N.R.M.C. fees.

N.R.M.C. can tell, after a brief look at a company's records, how much time and money a job will require. For example, N.R.M.C.'s contract with Pan American World Airways typically covered two separate operations. The first was to make an inventory and an alphabetical index of all records. This work was not to take more than eight weeks, at a cost of $300 a week. The second operation was to appraise all records and get the company's legal counsel, top executives, and department heads to approve all recommendations for destroying old records and shifting much of the rest to the Business Archives Center, which is now separately operated in Manhattan by Emmett Leahy. This work was not to take more than six weeks, at $500 a week. Total for the job: $5,400.

The savings to Pan Am—at least $26,000 a year—include not only wastepaper sales, low storage charges, and reclaimed office space and file cabinets, but a notable reduction in the company's expenditures for filing equipment: from $16,660 to $180 the first year. And since the latter expense represented a single purchase of

special fireproof cabinets, it did not invalidate N.R.M.C.'s promise that Pan Am would not have to buy any new filing equipment for two years.

Such promises are now a standard part of N.R.M.C.'s operations. N.R.M.C. hasn't had enough experience yet to tell how many cabinets a company may have to buy eventually, but it is certain that future purchases will not steadily increase as past purchases usually have. Aluminum Co. of Canada's bill for filing equipment, for example, rose from approximately $5,000 in 1950 to $8,000 in 1951 and was headed for the $10,000-a-year level when N.R.M.C.'s survey showed that future purchases could be postponed for at least three years.

In view of this, it might seem strange that sellers of file cabinets, such as Shaw-Walker, should have long been recommending to corporations that they clean out their accumulated papers. However, as Shaw-Walker's Vice President Fred Townsend points out, by advising a client how to cut down on its files, his company hopes to win the client's permanent good will—and future orders for other office equipment. Moreover, file cabinets are not a major part of the office-equipment business.

Shaw-Walker's consulting services cost its clients an average of $150 a day, but a consultant may save a company so much that the client is anxious to retain his services permanently. After one consultant had been on a job for over eighteen months, one client argued that "his services and recommendations have only cost us $45,000 so far, and he's saved us half a million already."

Benefits of this sort have not been achieved merely by cutting down the files. Shaw-Walker's men also analyze office methods and sometimes find that companies have needlessly raised their paperwork costs by installing too many business machines. In one overmechanized company, the consultant persuaded management to throw out seven billing machines worth over $30,000 and replace them with electric typewriters and low-cost clerical help. However,

a former Shaw-Walker consultant admits that "as often as we'd pull out machines, twice as often we'd throw new ones in."

Since the tendency to mechanize the office is well developed in most companies, many have tried to solve their filing problems with microfilming machines. U.S. Steel, for instance, has not only spent large sums on microfilming but equipped 3 million cubic feet of storage space in an abandoned cave in western Pennsylvania where it has cached microfilmed records *and* original records. There is no doubt that microfilming old files can save space. One roll of 16-mm. film, which takes up only twelve cubic inches of space, will carry the photographic images of 3,000 letters, or roughly three-fourths the contents of a file drawer. The condensation ratio is about 99:1.

But it may be much cheaper and easier to store the original records. The cost of preparing, filming, inspecting, and indexing the contents of a four-drawer cabinet runs to $80 or more. For $80 a company could store the contents of one cabinet in low-cost storage equipment for fifty-three years in space renting for $1 per square foot. Aside from the fact that few records need to be kept for years on end, microfilming has other disadvantages. Microfilmed files are hard to read and to index, and it usually takes much longer to find microfilmed references than it does to find references in an ordinary paper file. Also, unless certain precautionary steps are taken, microfilmed records are still questionable legal evidence.

But the greatest disadvantage of microfilming files is that it perpetuates management's habit of keeping old records. Companies that are setting up retention and disposal programs are at least beginning to break that habit. The most effective way to break it, however, is to prevent paper work from accumulating in the first place.

Of the many different birth-control techniques now applied to paper work, perhaps the most common are those resulting from efforts to simplify and speed up office procedures, particularly the

control of forms. Thus a Shaw-Walker consultant devised form letters for Carbon Black Export, Inc., which replaced individually written letters, each form letter eliminating four carbon copies from the files. This, plus some other changes, enabled Carbon Black to cut an executive and three clerks from its office staff, move to smaller, less expensive quarters, and slice annual operating costs by some $25,000. Similarly, General Foods adopted a twelve-part billing form to replace the separate forms and records of five different departments, and thereby eliminated five billing managers and $500,000 a year in overhead.

The control of forms is not, however, as easy as it sounds, for new forms are always being born. "People will ask for a form to suit a special purpose," says Fred R. Jones, a General Foods executive, "and after a while they move on—but the form stays." His company has a system for reviewing forms every six months, but even so, some useless ones slip by. The control of carbon copies of memoranda is equally difficult. General Foods' policy is to send only one copy of a memorandum to the company's centralized files. Despite this, Jones estimates that every secretary maintains three or four drawers of papers so she can get material for her boss in a hurry.

Executives, in Jones's opinion, are the worst paper savers because "they work on an individualistic basis, and don't realize how much paper work they create." One way General Foods has tried to curb the growth of records is to avoid giving any department extra space that might tempt a manager to install more filing cabinets. Before any new cabinets are supplied, office managers go through the old ones to see what papers can be thrown out to give a department more filing space. At Equitable Life, correspondence files are weeded out every third year, and only 5 per cent are retained.

A far more rigid control of management's files has been established in Procter & Gamble's Cincinnati offices. Back in 1932, P. & G.'s filing methods were revamped when the company (1) abolished its system of centralized files and (2) prevented executives

from building up their own files by restricting each correspondence "dictator" to one file drawer. Since then, yearly audits of correspondence files and a tight control over requisitions for filing equipment (which must be approved by a P. & G. officer) have so changed management's filing habits that, on the average, one drawer holds the paper work of four dictators.

The manager of P. & G.'s district-office service department, I. J. Berni, has persuaded many of the company's executives to adopt some of the ways he uses to reduce his correspondence files. One way is to answer letters, and especially interoffice memoranda, by writing a brief reply in longhand on the face of the original letter, which is then returned to the sender. If a longer reply is required, it is simply typed at the bottom or on the back of the original. To make dictators aware of their responsibility for creating excess paper work, instructions have been issued to many P. & G. stenographers not to make any carbon copies of letters unless the dictator specifically requests them to do so. Berni also recommends that every executive regularly thin out those files that are to be kept, and for himself maintain only "suspense" files, *i.e.*, papers on subjects being handled, and "as soon as the last letter has been written which closes the file, consign the entire file to the wastebasket."

Reducing correspondence files, however, is much easier than cutting down on the mass of daily business records in an office. For almost all managements still consider such paper work essential to proper corporate control. Even P. & G.'s auditors constantly check the filing practices of all district sales offices, and an office manager will be rated on how many records he keeps and how well he keeps them. Detailed records on salesmen's expenses and their coupon accounts, for instance, must be kept to the penny, because, as one manager said, "P. & G. wants to keep temptation away from its salesmen."

This insistence on paper work for the sake of honesty is found in most companies, but it may often be quite unnecessary. For

example, there is one company whose employees collect as much as $500,000 in a day, and the company deposits the money as a lump sum without retaining the identity of the individual collections. The bank merely verifies the total, and charges the company for any counterfeit bills or shortages in the total. Since 1949 these have cost the company less than $250 a year—and the company saves as much as $20,000 a year in banking charges, in addition to substantial paper-work savings.

The kind of calculated risks a company will take with paper work depends to some extent, of course, on the kind of business it is doing. Thus the *Reader's Digest* does not keep about 30 per cent of its subscribers' orders, transcribing the necessary information to stencil records. But the risk is slight, and since the magazine carries no advertising, it does not have to document its circulation figures as other publishers do. However, some companies take considerable risk in order to by-pass a lot of paper detail. For example, Sears, Roebuck & Co. has for thirty-five years been sending the customer's original order and the company's bill right back with the goods asked for. Sears has found this "very practical" and, keeping only a record of the total bill, takes the risk of having to refill the orders of customers who claim they didn't receive shipments.

Similarly, the experience of United Parcel Service shows how much paper work can be avoided if management insists on using the telephone whenever possible. "We don't get as many as 375 letters from our local customers in a year," one of United Parcel's managers says, "but we do make twenty times that many personal contacts." The results are visible in the company's files: *e.g.*, though United Parcel has done business with Altman's in Manhattan since 1932, its complete correspondence file on this customer is less than three inches thick. Further evidence of the company's attitude toward paper work is the fact that though the New York office deals with nearly 400 stores the entire national management staff of forty men has the assistance of only four secretaries.

For various reasons, however, few companies are yet willing to take the risks of attacking their paper-work problems. Sometimes management simply may not be aware of office inefficiencies, but more often managers build up their files either to protect their positions and decisions against future criticism, or to enhance their status. "Empire building," according to Shaw-Walker's Vice President Townsend, "is the worst ailment in American business." The "desire to serve customers" is another reason given for clinging to old papers. National City Bank, for example, retains the customer's monthly deposit tickets for six years. But the most common arguments for keeping records are that (1) laws—especially federal laws—make it necessary; (2) past records will protect the company against lawsuits.

Corporate anxiety over possible litigation has increased, of course, with the increase in antitrust suits and government regulations in the last twenty years. Where suits have arisen, old files have been generally considered a good protection. When a federal grand jury began investigating the pricing practices of the soap industry, Lever Brothers was able to produce its own old price schedules, back to 1924, and it had kept records of published information on competitors' prices for many years. Procter & Gamble, on the other hand, had regularly disposed of its old schedules, but its recent records were apparently good enough as evidence since the grand jury found no cause for action and closed its investigation.

The extent to which managements are inclined to protect themselves with old files was revealed by a national survey of fifty-five companies made by a Chicago file specialist, Record Controls, Inc. A tabulation of their retention schedules on 111 common business papers showed that the shortest retention period (one month) was applied to only two papers (receiving reports and tabulating-machine cards), and the average periods for even these records were 4.4 and 2.4 years respectively. Three kinds of papers (stockholders' minutes, property papers, and time-study reports) were retained

permanently by all fifty-five companies, and nearly all permanently kept seven other kinds (expired labor contracts, ledgers and journals, executive minutes, patents, copyrights and trademarks, canceled stock certificates and transfers, federal and property tax records, capital-expense vouchers). In fact, the only records that no company kept permanently were bills of lading, traffic correspondence, express receipts, freight drafts, stores inventories, and sales slips.

The survey also demonstrated how widely management disagrees about the length of time any record should be kept. Some random samples: retention periods for "acknowledgments" ranged from six months to permanent (four companies), with the average at 3.7 years; for expired contracts, from five to twenty-five years, with the average at 9.8 years; for drawings, from five to permanent (twenty-one companies), with the average at ten years.

Such disparities are to some extent due to varying local laws and statutes of limitations. But in the majority of cases, management strongly tends to play it safe by giving records a much longer term of life than is legally necessary. For example: the Fair Labor Standards Act requires companies to keep incoming and outgoing shipping records for two years; yet among the companies in this survey the average retention period for shipping tickets is 5.6 years, and two companies keep them forever.

Management's overcautious hoarding of papers, in short, seems to bear as little relation to law as it does to efficiency. Procter & Gamble's Berni suggests that executives would be less inclined to accumulate papers if, before filing anything, they asked themselves: "How much added cost would the company be called upon to assume if this material were not available." And if they can't calculate the risk, they might try a slow, safe method P. & G. has used to reduce retention periods. The period on one type of record, which had been kept for six years and filled several hundred file cabinets, was reduced first to three years, then to one year, then to six months.

The period was cut down to three months and still the company suffered no inconvenience or loss. As one top P. & G. executive said, "We will never know whether or not we have gone far enough with our program until we are hurt—and we haven't been hurt yet." Plainly, all that management seems to need to solve its paper-work problems is a little capitalistic risk taking.

ELEVEN

A Slight Case of Overcommunication

In 1949 John J. Wisler, president of United Sound & Signal Co., of Columbia, Pennsylvania, subscribed to the increasingly popular gospel that the more communications there are within a company the better. The small contracting manufacturing business that he and his brother Charles started in 1937 was growing fast, having graduated from the manufacture of burglar-alarm systems into the business of developing vending and refrigeration equipment and producing subassemblies for the York Corp., Nash-Kelvinator, and other big companies. Wisler had hired several line and staff specialists to handle production and engineering details he and his brother, the operations vice president, had been taking care of. But he knew that the company still needed the kind of personal, flexible management that would swiftly circulate information on shop work that was apt to change from day to day. As he puts it, "This business is still rough and tough, not something that can be run from a country-club veranda."

To make sure that his managers communicated verbally with him and with each other, Wisler set up morning "coffee conferences" as a daily routine both in the office and in the shop. He also established a simple system of written communications whereby the essential facts and background information on every order are distributed to fourteen department heads. As a result, he thinks that communications within the ranks of United Sound & Signal's management are "now almost automatic."

Recently, however, Wisler has begun to have doubts about the apparent success of his communications program. He believes his men now rarely suffer from the prime ailment of management communications: the confusion and frustration that result when executives haven't enough information to do their jobs. But he suspects that his staff is showing signs of what he calls "the secondary disease" of communications. "We have polished off communications," he says, "to the point where virtually everybody knows everything that is going on while it is materializing. This, however, has not been done without introducing a new set of problems. These I choose to call 'the frustration of knowing too much.'" In short, Wisler became concerned with the problem of *over*communication within management.

It is a problem that seems to have been completely ignored in the literature on communications. Even Wisler was not sure quite how to describe it. His jawbreaking definition of "the frustration of knowing too much" was "an awareness of some—but not all—factors of a situation resulting in the individual's inability to rationalize the particular action indicated, with consequent confusion of ideas." In other words, a little knowledge is a confusing thing.

Most executives would probably agree. But most of them would probably maintain that the cure for such confusion is simply to give executives more information. At any rate this would be the prescription according to the gospel of communications. Though the nature of communications within management is still a murky and almost totally unexplored territory, the belief persists that developing good management communications is primarily a matter of keeping everybody fully informed.

As Wisler has discovered, however, the problem seems to call for a more complicated answer than this. For one thing, there is the bald fact that total information about everything is as impossible in business as it is everywhere else. A more realistic solution

therefore might be to train executives in the art of discreetly withholding information from other executives.

The evidence at United Sound & Signal suggests that such an art may actually be one of the most necessary skills of an executive. In Wisler's experience, the confusion produced by too much information has occurred chiefly within the circle of his seven key men who, he thinks, may be frustrated, often perhaps unconsciously, by not knowing how much or what kind of information to pass on to their subordinates. Moreover, while he says that he personally is not aware of being frustrated on this score, he confesses that some of the information he receives—for example, informal reports that come to him about mistakes in the shop—can worry him needlessly.

To clarify his own thinking on this problem, Wisler has spent considerable time analyzing his company's communications network. His conclusions may not be valid for a large bureaucratic organization, but his experience may well be duplicated in many other companies once they have achieved a full and free internal circulation of information.

Wisler is remarkably articulate about the structure of his company's information system. He divides the company's personnel into five groups, and assigns to each a definite level of "perspective on the company's operations." The first, or top-management, group includes himself and his brother Charles, who are assumed to have full perspective on all factors of the business. The second, or middle-management, group includes his seven key men (the comptroller, production manager, chief engineer, sales manager, quality-control manager, purchasing agent, and treasurer), who are expected to have perspective on most of the operations. The third, or "sub-middle-management," group (production-control manager, chief estimator, service manager, production engineers, general foremen, and eight or ten other managers) has a decidedly limited perspective on what is going on in the company. The fourth group includes office personnel and other salaried workers who are barely

on "the threshold of perspective." And the fifth group of about 100 hourly paid production workers has practically no perspective on the company's operations, and often only "a garbled awareness of some factors."

In addition Wisler holds that there are four quite different kinds of information transmitted among these five groups. There is, first, the essential specific operating information; second, information about company plans and sales activities; third, the perpetual grapevine information about almost anything concerning the company and its personnel; and fourth, those day-to-day bits and pieces of news and background information about orders, operations, and plans that flow up and down the line between top management and lower echelons.

Of these four kinds of information, the fourth category—which Wisler calls "the dope"—produces the most frustration and confusion in United's managers. A phone call from a customer to the sales manager, for example, may bring news of a possible increase or decrease in an order, or one of the Wislers may pass on to his subordinates a piece of news about a competitor or a customer that may affect future production. And once such dope is passed along, each manager must decide how far he will let it go. Occasionally President Wisler may warn against passing on a particular piece of news, but generally he leaves the decision up to his men.

Wisler is confident that his key men have enough perspective in most cases to make such a decision. Most of the frustration or uncertainty about passing on information, he believes, occurs at the sub-middle-management level, where managers do not have enough perspective to evaluate the dope they receive. Below this third management level, Wisler thinks the problems of knowing too much decrease until they are practically nonexistent among the hourly workers, who rarely get the dope from their supervisors.

Several of Wisler's managers have come from companies where communications channels have been almost totally blocked by

policies as well as personalities. Without exception these men are pleased with their new freedom in exchanging information, and still think that lack of information causes most of their troubles. However, they are also beginning to be aware that too much information has its perils. And there is some specific evidence that proves it.

Perhaps the clearest example of overcommunication is the case of the unwanted overhead figures. Top management had decided that full information about job costs, including figures on both direct labor and overhead, would be circulated to nine executives. But the overhead figures often involved the use of different rates for estimating, for pricing, and for bidding on various jobs, and these differences soon caused confusion and disputes in the engineering department. Moreover, the cost sheets were seen by many in the shop who could not understand why the final figures on some jobs showed up in red ink even though the production department had met the estimates on direct labor and materials. After two years of such misunderstanding, President Wisler decided that the overhead figures should be eliminated from the cost sheets distributed to the engineering, production, and purchasing departments.

Those who used to see the overhead figures now seem entirely satisfied not to be bothered by such information. Shop foreman Morrison, for example says, "The new system is better because we have a straight target to hit. You can't explain overhead to most shopmen, and should keep such figures from them because they don't have enough background to understand them."

In other cases, however, United Sound & Signal's overcommunication problem is neither so clearly defined nor so easily corrected. This was recently illustrated by management's efforts to get one rush job through the shop. The job, an ordnance order for 850 relatively complicated assemblies, had been secured by sales manager William Kane on the condition that the company would meet

a very tight delivery date. The first real frustration over the order was experienced by chief engineer Guy McLaughlin about ten days before the deadline when he heard from chief inspector Robert Price late one afternoon that a subassembly was out of tolerance. McLaughlin at once went to the shop foreman, who gave him some more alarming news: an entire production run of one part of a subassembly would have to be junked.

As he sat worrying in his office, sales manager Kane passed by, and McLaughlin gave him the news. It was now Kane's turn to be frustrated, and he griped to himself driving home that night because it looked as though he couldn't keep his word to the customer. McLaughlin also went home fretting. The next morning, however, project engineer Robinson relieved McLaughlin's worries by telling him that he had already taken steps to correct the mistakes.

In this series of events, one act of overcommunication clearly produced two subsequent acts of overcommunication: *i.e.*, the first bad news passed to McLaughlin by chief inspector Price led to McLaughlin's getting additional bad news from the shop, and then to McLaughlin's passing on his version of the bad news to Kane. But while McLaughlin admits that the bad news disturbed him all that evening, he insists on learning about shop troubles from his men and often goes out into the shop to see how things are coming along. "I take pot shots at detailed operations on such trips," he says, "because it helps me keep the men on their toes." The risk of overcommunication, in short, is the price he is willing to pay for maintaining shop efficiency.

It seems obvious that the only safeguards against the dangers of overcommunication within management lie in the discretion the individual manager uses in handling information. Since no two managers are alike, each executive will have his own criteria for passing on or withholding information. Consider, for example, the

variety of criteria employed by some of United Sound & Signal's managers.

At the top level, President Wisler is inclined to be very free in passing the dope along to his key men. There are two categories of information that he discusses only with his brother: major fiscal items, such as large capital expenditures, and plans for shifting the jobs of some of his key men. On the other hand, strategic information about sales and customers he is apt to discuss only with sales manager Kane. Otherwise, in deciding what he will pass along Wisler asks himself two questions: (1) Is it prudent? and (2) Is it necessary? And in answering these two questions he is obviously, like every other executive, at the mercy of his own judgment—which may easily be impaired by either overcommunication or undercommunication from his managers.

Brother Charles Wisler seems to be somewhat less free with his information. He tends, for example, to withhold any disturbing news from his immediate subordinates, as well as matters concerning the company's future plans. Like most executives, he is apt to screen his revelations according to the personality of the man he is talking with. He is particularly cautious with a manager who has "a gabby tongue," but will confide openly in those who, like himself, have an analytical turn of mind.

Similarly, chief engineer McLaughlin restricts any dope he receives to those he thinks will weigh it carefully. "I feel I can talk freely with the kind of man who will examine a lot of car models before buying one. His age and business experience are also important of course, but sometimes you can't know how untrustworthy a man is until he fails you." McLaughlin admits he doesn't like to take the time to explain things to his subordinates, and therefore often withholds much of the dope he picks up in the morning coffee sessions.

Before passing any dope along, he may ask himself if the com-

pany would lose money if the information were known outside. He was particularly wary, for example, about relaying any items concerning the newspaper-vending machine that the company developed for several large U.S. publishers. While most of the men in the shop knew the company was making such a machine, its potential importance for the company was a closely guarded subject.

Despite the grapevines that quite normally extend all through United Sound & Signal, overcommunication does not seem to be much of a problem at lower levels of management. Indeed there is evidence in this company that withholding information is common practice both at the foreman level and among those who represent the hourly workers.

A case in point is the exchange of information about a fork-lift truck that the workers wanted in order to handle heavy dies. Shop foreman John Morrison suggested to production manager Tom Reeder that such a truck would increase both safety and efficiency, but top management decided that the capital expenditure was not advisable. Reeder passed this information back to Morrison, but Morrison didn't pass it on. When his men questioned him he told them, "Behave yourselves, and you'll get a truck." He cautiously withheld the information he had received from Reeder, for, as he says, "You don't throw gasoline on a fire." He was also gambling that top management would change its mind, and the gamble paid off, for a new fork-lift truck was shortly acquired.

The tendency of employee representatives to withhold information was illustrated in the way news was handled about a big order from the Nash-Kelvinator Corp. When the order was received, President Wisler decided that the news would improve worker morale and he released it to the welfare committee, three of whose members are hourly workers (there is no union in the plant). This news was passed on to the workers, and it apparently did raise morale for a while. But because of engineering delays the job did not reach the shop floor. Wisler explained the delays to the wel-

fare committee, but his explanation did not seem to filter down from the committee to the workers.

One of the employee committee members frankly says he doesn't pass on information he gets as a committee member unless a worker asks him a direct question. He sees no reason for passing on any dope about company plans and prospects, since he knows how word even from him can be distorted as it is repeated. As he puts it, "If you tell something, it stretches."

Neither the workers nor the lower levels of management seem particularly impressed with top management's efforts to communicate with them. One shop worker indicated his reaction to most information coming down from management by saying, "That's their worry, they know what they're doing. If the news is going to benefit me, I'd like to hear about it. If not, I don't want to hear about it. I'm here for work." Among the managers, shop foreman Morrison, for one, believes that President Wisler may have made a mistake in trying to keep everyone informed about the company's prospects. Whenever Wisler has let his managers and employees know, for instance, that business seems to be slowing up, Morrison and the other foremen have to try to answer a lot of questions without having the answers.

Morrison at the same time hasn't found the morning coffee breaks in the shop very fruitful as a source of information. He relies mostly on his lunches with men from the engineering department. "I count on lunchtime gossip," he says. "I'd be lost without it."

From the evidence at United Sound & Signal Co. it would be easy to draw hasty conclusions—*e.g.*, that management's attempts to improve communications are a waste of time. While many of these attempts may be fruitless, there is too much evidence in favor of more communications to warrant so pessimistic a view.

Nor is there must to be gained in any elaborate system of rules and procedures to guide executives in withholding information. This might be recommended by management consultants if the overcom-

munication problem became widespread. Such a system, however, would not only be most difficult to enforce; it might well create even worse problems than overcommunication. Psychologists, for instance, have established the fact that when a person pays too close attention to the details of a skill he already has, that skill is very likely to become "disorganized." Thus an executive who has slowly learned by a thousand different experiences how and when to communicate with others in his company might lose his skill once he became self-conscious about following a systematic procedure.

To some extent, the confusions experienced by Wisler's managers may have been due to their failure to delegate full responsibility to their subordinates. For example, McLaughlin's unwillingness to let go of operating details led to his frustration over the errors on the ordnance order. More delegation, however, would not eliminate the necessity for executive judgment in passing the dope along, since some dope—for example, preliminary news about a rush job that calls for immediate action on ordering materials—has to be passed on if the company wants to satisfy customers and stay in business.

Perhaps overcommunication is inevitable whenever the flow of information becomes as free and easy as it seems to be at United Sound & Signal Co. Perhaps there is no solution other than the gradual education of managers, by actual experience, in the art of thinking twice before passing information along. In any case, the main lesson to be drawn from the experience of this small company is that in communication, as in so many other management endeavors, there *can* be too much of a good thing.

PARTICIPATION

What really makes good labor-management relations? Easy generalities can and have been made about cooperation between labor and management, and the virtues of allowing employees to participate in both the operations and the profits of their companies. Profit sharing can *produce notable results; but it is also likely to disillusion management, as the evidence cited in one of the following chapters makes clear. The real nature of good industrial relations, however, is not to be grasped through generalizations or the evidence of unrelated examples. Since it is as intangible and complex as human friendship, it has to be sensed, felt out, and studied in detail in a specific case. Here, then, is a study of the actual internal relationships of one manufacturer, the American Lead Pencil Co., maker of "Venus" and "Velvet" pencils. The record contains no formula or "system" that can be universally applied, but it reveals the basic nature of an educational process that can be profitably followed by any company.*

TWELVE

Labor Relations at Work

AFTER TWELVE YEARS of painful trial and error, labor and management at the American Lead Pencil Co. achieved industrial peace. This is the true story of their warfare, and of how their peace came to pass in an old-fashioned, grimy factory in Hoboken, New Jersey. The story opens in the summer of 1949:

CAST OF PRINCIPALS
(*Approximately in order of their appearance*)

Richard Lewisohn Jr.	"Labor relations something or other," American Lead Pencil Co.
John Lombardo	Shop steward, Local 77-A, T.W.U.A., 1937–
Edwin L. Ashton	Plant manager, 1900–1941
John Cleland	Cost accountant, 1916–1943
Sam J. Reckford	Chairman of the Board, 1936–1949
John K. Reckford	President, 1936–1941
Joseph S. Reckford	President, 1941–1949
Charles A. Riegelman	General counsel for the company
Warren Bliss	Union organizer and president, 1937–1940
Sidney Wood	Labor statistician; onetime union president and liaison between management and the union
David Drechsler	Labor counsel for the company
Joseph Sprechman	T.W.U.A. business agent, 1938–1941
Irving Zeichner	President Local 77-A, T.W.U.A., 1940–
Carl Holderman	T.W.U.A. regional director, 1939–1944
Edward O. Kolbert	Factory manager, 1941–

The names of certain secondary characters in the story have been purposely disguised.

Richard Lewisohn, who is thirty-three, occupies a small and rather bare office in a corner of the central offices of the American Lead Pencil Co. in Hoboken, New Jersey. Officially he is the company's treasurer and he also has a hand in its purchasing contracts and sales policies. But for the last nine years he has been primarily concerned with developing good relations between the company and its 650 employees. He bears no such title as "industrial-relations director," being known throughout the plant as Mr. Lewisohn, Dick, or simply Lewisohn. Depending on the circumstances, those with whom he deals most may address him by all three names.

One man who does so is John Lombardo, the shop steward for Local 77-A of the Textile Workers Union, which organized the plant in 1937. As an employee, Lombardo is responsible for the milling of colored leads in the lead department, which is six blocks from the main plant, and where everybody and everything—air, workers, machines, walls, floors—are unavoidably grimed with powdery graphite. As shop steward, he serves in several capacities, but chiefly as a receiving-and-relaying station for the "troubles" that come to him day after day from all corners of the plant.

The relationship between Mr. Lewisohn and Mr. Lombardo is constant, casual, and complex. Practically every afternoon, shortly after lunch, Lombardo drives in his old Ford over to the main plant to discuss his latest batch of requests and complaints with Mr. Lewisohn. If these seem likely to produce vigorous argument, or if Lombardo wants to smoke his pipe, the two men leave Lewisohn's glass-partitioned office for a small private conference room next to President Joseph Reckford's office. There, seated across the table from each other, they repeat with endless variations the same basic scene. One exchange between them ran about as follows:

Lombardo pulled out a few scribbled notes, and Lewisohn, totally unconcerned and looking a little sleepy, said, "O.K., shoot." Lombardo started off rapidly.

"Moffet says he can do the job cheaper in overtime, without a

helper. He says in two hours a day overtime he can do what the helper does in four hours. And he wants the overtime."

Lewisohn looked unconvinced. "I'm not so sure Mr. Moffet is right, but the company doesn't want to waste its money. I'll look into it."

Lombardo shrugged slightly, gave a quick nod, and turned back to his notes. The next case came from a girl in the packing department who complained that she was being shifted around on different piece-rate jobs for which she had no training, and hence couldn't even meet the base rate of 65 cents an hour (plus 16 cents in cost-of-living adjustments granted in 1946). Under the union contract, she was paid the base rate, but she wanted to earn more.

"Now, Dick," Lombardo said, "I want to request one week's training for her at the 'going' rate [5 cents over the base rate]. After that, she'll make out better, and won't be penalized for something she can't control."

Without replying, Lewisohn picked up the phone and tried to reach the department foreman. While he waited for an answer, he told Lombardo to go on with the next case.

"This is one of them you're not going to like," Lombardo said, "but I gotta give it to you, anyway."

A faint smile crossed Lewisohn's face as he dangled the phone limply in one hand. "What makes you think I like any of them?" he asked. Then, after listening to the foreman give his side of the story, he turned again to Lombardo.

"The foreman says he's afraid if we give it to her, all the other girls in the department we denied this going rate to a few weeks ago will be on his neck."

Both men knew about these cases, and they had first decided to adjust each on its own merits. But the union wanted a firm agreement on the principle that all trainees be paid the going rate, while management contended that this would amend the contract.

"If I make a special deal in this case," Lewisohn went on, "it

weakens our position tremendously. I'm laying it on the table. I don't object to the money. Seventy cents, 65 cents, what does it amount to? Two dollars a week. I'm just afraid everyone else will ask for it."

Lombardo continued to look steadily at Lewisohn, but did not speak, apparently sensing that Lewisohn had more to say.

"It's not that we pay too much attention to precedent," Lewisohn went on, "but this involves a basic question: when to pay going rate and when to pay base rate. Let's hold this for the grievance meeting. I can promise you this: any settlement will be retroactive."

Lombardo paused for a moment, then quickly said, "O.K., O.K.," and glanced back at his scribbled notes.

"Now what's this one I'm not going to like?" Lewisohn asked. This one involved two men who handled the company's stock of pencil boxes and whose work had been increased by a new routine ordered by a foreman. Also, the elimination of overtime in the stockroom had cut their hours from fifty-four to the normal forty hours a week, and each had thus lost about $25 in pay a week.

Lombardo hunched forward over the table and spoke vehemently. "Peterson gets the bright idea to put this extra work on the box department. They need help or more time."

"How much more time?" Lewisohn asked. He knew that Lombardo had always disliked this foreman.

"Four hours," Lombardo replied, "in addition to their regular forty."

"I'd say more help—'how much' to be determined."

The phone rang, and Lewisohn talked briefly to Mr. Curtis, one of the oldest foremen in the company. When he hung up, Lombardo said, "I just saw Curtis a while ago and I refrained from telling him to go to hell."

"Why?" Lewisohn asked. "Doesn't that new man of his work out?"

"Yeah, but now this guy's sister died, and Curtis doesn't see why

he has to go to the funeral. I asked him, 'Anybody in your famil, ever die? You go to the funeral?' He says, 'Yeah.' " Lombardo shook his head, implying that Curtis was a hopeless case.

"I hesitate to ask," Lewisohn said, returning to the complaint from the men in the stockroom, "whether it's a question of increased remuneration for these guys?"

Mr. Lombardo dismissed this mild taunt abruptly. "No, if they don't need the extra time, they shouldn't get it." Then he brought up his last case, which had nearly caused a stoppage in the box-making department the day before. The foreman had accused one man of not turning out his quota of boxes, and said there'd be no overtime in the department because of this "slow" worker.

"The guys blew their lids," Lombardo said. "I can't understand this foreman doing that. One of the nicest guys you wanna meet. Hardly ever says anything. Maybe he had a grudge." But both Mr. Lombardo and Mr. Lewisohn knew that tempers in the department were already up over losing the sixteen hours of weekly overtime they had enjoyed during the peak war and postwar years; and the men also resented recent efforts of management to get accurate figures on their production rates. The union had convinced them that the company was entitled to know what production was, but now they interpreted the foreman's action as both a speed-up and a move to cut out all chance for any overtime whatever.

Lombardo eyed Lewisohn carefully for a moment. Then he said, "Do you think in the back of your mind they're not producing as much as they could?"

"I'd rather not comment."

"Come on," Lombardo said, "I won't hold you to it."

"Well, yeah, I have a hunch they're looking for some overtime."

Lombardo leaned forward. "Well, Mr. Lewisohn, if that's your hunch, I'll tell you something. You're right. They *are* looking for overtime. But the point is this: if they're entitled to it, they should get it."

"Sure," Lewisohn said, "if they're giving a full eight hours' work." He smiled slightly at this familiar old argument. "So how about making a study of this 'slow' man's production?"

"O.K.," Lombardo agreed. "I'm agreeable. The guy has nothing to hide. I don't object."

"Well, is that all, Mr. Lombardo? I hope so." Mr. Lewisohn sounded a little tired, but he also sounded as if he were willing to continue indefinitely.

"Yeah," Lombardo said. He got up, started out the door, then turned and asked, "You'll let me know when we're gonna grieve?"

"Sure, John," Lewisohn answered. "Probably next Friday."

By next morning, however, Lombardo had answers on two of the four cases he had brought up. Lewisohn told him there would be more temporary help assigned to the men in the box stock department. Then he cited production figures to prove that Mr. Moffet was "cockeyed," since his helper was turning out far more work than Moffet said he alone could do in two hours' overtime. Lewisohn, however, agreed to Lombardo's proposal that the helper's piece rate be raised up to Moffet's. Within a week the other two cases had been resolved. One was ironed out at the union-management grievance session; and the other evaporated when Lombardo checked the production records and found that management had made a mistake in applying the wrong production yardstick to the "slow" worker's output of a complicated box.

Such is the day-to-day course of industrial relations at the American Lead Pencil Co. It may be said at once that these relations are not merely good—they are *really* good. For in this company the basic, satisfactory adjustment has now been achieved in one of the most critical areas between management and labor, *i.e.*, in the daily human intercourse between responsible parties of both sides. The exchange between Mr. Lewisohn and Mr. Lombardo clearly reveals the elements of that adjustment: mutual confidence, frank recogni-

tion of each other's problems and motives, patience, action (instead of promises), flexibility, and other subtler reconciliations between differing personalities.

From such a base, any new routines of cooperation can be readily developed. Indeed, the easy cooperation of Mr. Lewisohn and Mr. Lombardo represents only the most apparent of the essential relationships that have been built up in this company. It is the working end of an intricate and largely invisible mechanism constructed of a great many other relationships. These are of all kinds—formal and informal, legal and unwritten, personal, commercial, political, historical, and social. They crisscross far outside the company, the pencil industry, and the Textile Workers Union.

Twelve years ago, scarcely any of these constructive relationships existed. It has taken countless mistakes, a long strike, and continuous, often dramatic reeducation of both labor and management to bring industrial peace to this company. The story of this transformation alone answers a large part of the question as to what makes good relations.

The labor-management situation at American Lead Pencil early in 1937 was probably no worse than that to be found in thousands of other companies in the United States. Struggling to emerge from the depression, the company was making little money, and, along with its three big northern competitors,* was trying to meet the sharp competition of some half-dozen southern pencil makers whose low costs were due chiefly to very low wages. To keep their own costs as low as possible the northern companies relied mostly on their foremen, and the hard-driving, penny-saving methods that once characterized all American industry.

Inside American Lead Pencil's Hoboken plant, the foreman was king, riding roughshod over recalcitrant or complaining workers. His zeal to get out more and more work was in many cases fired by the

* Joseph Dixon Crucible Co., Eagle Pencil Co., and Eberhard Faber Pencil Co. are known, with American Lead Pencil Co., as the "Big Four."

fact that he was given a bonus on extra production. He also recommended what the rates of pay should be. Wages were kept low indeed; the average that year was $15.33 a week, and about 12 per cent of the workers earned only $10 a week. Wages prevailing in other Hoboken plants, as well as among the northern pencil makers, were at about the same level.

The company's top management was quite unaware that the way the superintendent and foremen were running the plant was as bad as it was. Management had been strictly a family affair ever since 1887 when the widow of Joseph Reckendorfer, an early president of the Eagle Pencil Co., bought a small Hoboken pencil plant for her two sons, Louis and Sam. The company flourished until the crash in 1929, when grandsons John and Joseph Reckford took over under the guidance of the late Sam J. Reckford. Since they were concerned with sales, competition, costs, and finances, the genial Mr. John and his precise, retiring cousin, Mr. Joseph, gave little thought to labor relations in the plant. They left these to Edwin L. Ashton, the plant manager, and John Cleland, the cost accountant who approved all the hourly and piece rates. This was and still is common practice elsewhere in industry, and in delegating such authority over their employees, the Reckfords did not think they were making any mistake.

Under Ashton and Cleland, however, the workers and foremen waged bitter war. Ashton, ordinarily a rather meek gentleman, could be extremely stubborn in supporting the dictates of his foremen. And though Cleland was considered even by the workers to be exceptionally "fair," he would resist raising a rate by so much as a penny if he thought the request was unjustified. Though there had been a few work stoppages over sharp wage cuts in the early thirties, the majority accepted the situation as inevitable and, indeed, natural.

But a few were rebellious and one in particular, a young, fast-talking machinist's helper named Warren Bliss, began stirring others

up about "workers' rights" and their need to unionize to get more pay and some job security. According to one story, Bliss became a really fiery organizer when the company laid his wife off in the spring of 1937. He was helped by the volatile John Lombardo, and by a serious, slow-spoken lead tester, Sidney Wood. Lombardo was only twenty-three, but he had worked for the company for seven years and was smarting under the iron foremanship in the plant. ("People were being pushed around everywhere.") And Wood, then thirty-four, was chafing at his job in the lead department. An ex-printer who lost his job in 1930, he had joined the company as a last resort to pay his rent, and he despised working in a grimy shop and being treated like a number. Even common factory routines offended him. ("At five-thirty we all lined up inside the fence around the lead plant and when the whistle blew they let us out, like a herd of cattle.")

Bliss, Lombardo, and Wood had no trouble convincing other employees that unionization was their big hope. Bliss went to the nearest CIO headquarters, the Textile Workers Organizing Committee in Union City, and was told to get the workers to sign pledge cards. Within three days, practically every factory employee had signed up. Since no union exists for pencil workers (they are too few), the T.W.O.C. agreed to handle the local's affairs, and the employees promptly elected it as their bargaining agent. The union's drive did not escape the foremen, a few of whom, characteristically, tried to intimidate workers with indirect threats of discharge, or with open bribes of promotion.

To the Reckfords, the union's campaign sounded like the rumblings of disaster. Fearing that it meant the loss of management's control over the plant, President John Reckford turned to the company's general counsel, Charles Riegelman, for advice. Riegelman had the wisdom to take in as counsel a lawyer who was expert in labor matters. David Drechsler had guided the men's and boys'

clothing industry through its first historic contract with the Amalgamated Clothing Workers Union back in 1923, and subsequently had counseled many employers into successful working union agreements. An old friend and great admirer of Sidney Hillman, he was strongly pro-union; but he also strongly supported management's right to run its business profitably.

As soon as negotiations began, management was outraged by the union's major demands. These were typical: a 25 per cent wage increase, a union shop, and the checkoff of union dues. Management held that the company couldn't possibly afford the first, and the other two sounded like giving the plant to the union. No one can recall just how it happened, or who was most responsible, but after days of discussion management's thinking finally shifted, and both the union shop and the checkoff were accepted. Management concluded that these provisions could benefit it by making the union more secure and hence less belligerent. And eventually management also decided it could afford to increase wages by about 9 per cent.

This the union accepted, and a contract was signed only two weeks after negotiations started. It included provisions covering seniority, hiring and firing, and a week's vacation with pay for those with more than a year's service. In addition, the contract set up arbitration machinery, and even designated the arbitrator who was to settle the hottest disputes.

Both management and employees quickly realized that the signing of the contract was at best only an opportunity to begin the development of good relations. For under Ashton and Cleland, the foremen still tried to run their departments as they always had. They plainly resented the union, and openly accused it of encouraging the workers to cut down production.

While this was not true, the workers occasionally took direct action against a foreman's arbitrary attitudes by ignoring the contract and walking off the job. And in the lead department Wood carried

on his private war with one foreman who apparently felt that Wood, his highest-paid man, had let him down by organizing the union and becoming its vice president. When the foreman summarily demanded a daily report on the number of samples he was testing, Wood cut his output from 160 to 80, and said he could do no more without a helper. This enraged the foreman, but with union support Wood got the helper. "They said I was the only guy in the plant with nothing to do and a helper to help him do it," Wood recalls, "but I was not entirely wrong. That foreman was asking for it." Elsewhere in the plant, innumerable squabbles over production, piece rates, and seniority rights became hot fights and then grievances over which the union and management argued for months. In the next three years more than thirty deadlocked cases went before the arbitrator. The situation was not improved when the union sent over a new business agent, Joseph Sprechman, to handle the local's affairs.

Sprechman had a sharp eye for grievances, real or imagined, and he held Marxian ideas about labor's role in industry. Nevertheless, when layoffs mounted that year and many workers wanted to strike over a rate policy, he backed the union president, Bliss, in opposing a walkout while business was so bad. By a narrow margin the strike was voted down and the union signed a two-year contract that differed little from the first.

However, as time for renegotiating the contract approached, Sprechman and the union leaders were determined to get higher rates and wages. Grievances became sharper and more frequent, and in the union's local newssheet, edited by Wood, foremen were pilloried by name and management was pictured as the fat, capitalistic oppressor of the workers. Sprechman's pro-Russian views also appeared in stories supporting the Nazi-Russian pact.

Management was convinced that grievances were being manufactured, and that the workers were being deliberately incited to sabotage operations by inefficiency. Moreover, management was

positive it could not grant a wage increase; the company had made very little that year, and was still just scraping along. Drechsler flatly told the union that "there will never be an increase till the company makes a profit." And when the union refused to believe the company wasn't making money, he offered to let a union auditor examine the company's books. The union took the offer and discovered that the company's profit position was indeed poor.

This fact, however, solved nothing. The union rejected its auditor's report and asked the Bureau of Labor Statistics for a study of wages paid by other northern pencil makers. While waiting for this study (it showed that the company's hourly wage level was about ½ cent above the others), the union shifted its argument. The company's unhealthy condition, it claimed, was due to inefficient management, and workers couldn't be expected to help increase efficiency on the wages they were getting. Thus the issue boiled down to "a fair day's pay for a fair day's work." One day the union suddenly stopped arguing and called the workers out on strike.

The strike lasted eight weeks. Mass picket lines were kept going around the main plant and management made one abortive attempt to hire strikebreakers. A foreman's car was stoned once, but the strikers showed no personal antagonism toward the Reckfords, even when President John Reckford stepped out on the fire escape and took color movies of the picket lines.

Eventually, both sides admitted that labor was not getting a "fair day's pay," and that the company was not getting a "fair day's work," particularly in the case of those workers—some 30 per cent of the total—who were on time rates. And at last one member of the union's negotiating committee, Irving Zeichner, came up with an idea that broke the deadlock. Zeichner, a stocky, quick-thinking unionist and the company's chief shipper, suggested that the union members themselves could abolish scores of inefficiencies that were keeping costs up. And they would do so, he promised, if they could be assured of getting half the benefits therefrom.

Both Drechsler and the two Reckfords agreed to include an earnings-incentive plan in the contract. On all production in excess of their average hourly output, time-rate workers were to receive a bonus equal to half the direct labor costs per unit. If, for example, the worker earned 50 cents an hour and had been turning out fifty units, he would earn a half-cent bonus on every unit over fifty that he could produce. In addition, the company agreed to raise the minimum wage from $13 to $14.50 a week. On these terms the union members voted to return to work.

With the end of the strike, both management and union were faced with the really tough job of carrying out their agreement. The big puzzle was how to measure a fair day's pay and a fair day's work. Bias could be expected from each side. But the solution was soon provided by the two men who were, technically, outsiders: Drechsler and Carl Holderman, then T.W.U.A.'s regional director for New Jersey. They decided to appoint one employee who would investigate, as impartially as possible, the company's rates, inefficiencies, and working conditions. Management and the union could then accept or reject the go-between's recommendations.

This scheme had more than the virtue of simplicity; it placed the burden of refusing to cooperate on both management and the union. As for the delicate question of what employee to choose for this liaison job, Drechsler asked for Holderman's nomination and got it: "Sidney Wood—I'll stand behind Wood's ability to judge an honest day's work." Drechsler then got management to approve the plan. Management was not too optimistic, but agreed with general counsel Riegelman that "We couldn't do any worse than we have been doing."

So Sidney Wood, then president of the union, was called over to Drechsler's office and briefly told: "The union committee members have claimed that they know how efficiency, rates, and labor relations in the plant could be improved. All right, let's see if you can

prove those assumptions are right." He was not told how he was to do this, but was simply given a typewriter, some paper, and a desk in the company's main office, plus a "free run of the mill to go anywhere my conscience, my nose, or my heart led me." They led him first to the company's production-cost and payroll records, for three years of grievance sessions had taught him that practically all the complaints were over wages and production quotas. Wherever Wood found that workers weren't producing what the piece rates called for, or wherever wages were lowest, he went to that department and investigated.

It was tough and ticklish work. The foremen resented his "snooping" and considered him "just another union man." Ashton and Cleland eyed him suspiciously, and continued to back the foremen in all disputes. The workers were confused and suspicious; confused at having their methods questioned by an officer of their union, suspicious about whose side he was really on. "He used to work in the pig pen [lead department] at American Lead Pencil," they muttered, "but now he's got a white collar and tie. He must have sold his soul."

But Wood kept on investigating, and he learned among other things how resistant workers can be to new methods and how bitter they can become under a group incentive system. One day, for instance, he caught a worker about to swing a heavy file over the head of a colleague who was slowing down on the job and thus cutting the group's earnings. Month after month Wood reported his detailed findings and recommendations to Holderman and Drechsler. Some of the recommendations were relatively simple; setting up a first-aid station in the lead department, for instance, which might save 500 man-hours a year lost by workers going to the dispensary in the main plant. Many recommendations were directed at the rescheduling of work; eliminating needless operations and wasted motion in routing materials; correcting safety hazards, poor lighting, ventilation, lavatory facilities, etc.

Wood's major attack, however, was on the company's unsystematic rate-setting methods, which had been most responsible for the strike. He watched the rate setters, made spot studies, talked to workers, and checked every rate before it was presented to the union. Spurred by his recommendations, management replaced time rates with piece rates in most departments, to increase incentive. Wood proposed that some rates be lowered, and that "made-work" overtime and many "allowances" paid for lost time, delays, etc., be eliminated by shifting or retraining workers and redistributing the work load. Excess supervisory costs were exposed, and both promotions and demotions suggested. He bluntly criticized certain foremen as stubborn and paternalistic; others he commended for ingenuity in making better use of their machines.

In his progress report at the end of his first year of work for management and the union, Wood could cite facts and figures on the program's success. Of a hundred or so recommendations management had accepted 75 per cent, rejected 6 per cent, and 19 per cent were pending. The union had adopted 90 per cent of those that concerned it. Production was up 28 per cent, and man-hour efficiency up 11 per cent. Production costs, however, had dropped little, if any, because general wage increases had raised hourly rates more than 8 per cent, and the total payroll, along with production, had risen 28 per cent. Far more significant was Wood's report that management-labor relations were "infinitely improved." He pointed out that the resulting improvement in efficiency was "immeasurable," with each side less suspicious of the other.

It was, in short, a most heartening report. But, as Wood knew well, the program would never have succeeded unless a lot of other things had been working in his favor. One was the enthusiastic support of President John Reckford. ("He was like a fella who'd been bothered by a bad tooth for years, and finally has it out.") The President's exuberance frequently embarrassed Wood's operations.

"He sent one memorandum after another, beginning 'Mr. Wood says . . .' until people were ready to vomit when they heard my name. They began saying, 'This fella from the lead department is suddenly the source from which all wisdom flows.' " But the President's eager backing produced cooperation as nothing else could have; without it, the foremen might easily have hamstrung Wood.

Unhappily, President John Reckford fell ill two months after the program started, and died early the next year. He was succeeded as president by his cousin, Joseph S. Reckford, who, in a quiet methodical way, was just as interested in Wood's efforts but now realized that the company's labor relations were a full-time job. He therefore confided management's daily labor-relations functions to his twenty-five-year-old cousin, Richard Lewisohn—a move that proved helpful to Wood.

The assignment of Lewisohn was partly fortuitous and partly the result of foresight. It could not be justified by either his knowledge or his experience. At Harvard he had taken a four-year academic course and was interested in both advertising and law, but only vaguely. After graduation in 1937 he went into the family business (his grandmother, Daisy Reckendorfer Strauss, was an original stockholder) and spent three years working in various stockroom and office jobs. Then he began to help President John Reckford on labor problems, but an industrial-engineering firm, hired to survey the company's vicissitudes that year, urgently recommended that he be replaced by an "experienced" industrial-relations man. Here Mr. Drechsler exhibited foresight by rejecting the recommendation on three grounds: first, that Mr. Lewisohn, as a member of the managing family, represented top authority as no outsider could; second, that he already knew many of the idiosyncrasies of both management and the workers; and third, that he possessed, in Mr. Drechsler's opinion, the personal qualities essential for developing good relationships in the plant.

Lewisohn's qualities did not become immediately apparent. It

was some time before he acquired the confidence to make prompt decisions on workers' grievances, and at first he was overcautious about offending plant manager Ashton and the foremen. But even while he was learning how to handle "situations," several significant shifts occurred in the union. Shortly before Wood had started his liaison job, the union's president, Warren Bliss, demanded a raise, and, when it was refused, tried to get his machinist colleagues to walk off the job. When *they* refused, he quit the company for good, and Wood succeeded him as the union president. A month or two later, however, when Wood became the go-between, the union elected Zeichner as president and re-elected Lombardo as shop steward. This clarified Wood's status (he was now just another union member) and simultaneously won him the full support of Zeichner and Lombardo, who were anxious to see him demonstrate the union's claims about inefficiencies in the plant.

Not long after these shifts, director Holderman summoned his aggressive business agent, Sprechman, and told him bluntly the T.W.U.A. didn't like the propaganda he was spreading about the Nazi-Soviet pact. Holderman advised him to seek "more congenial surroundings" since he was "not going to get any place in this organization." Sprechman took the advice, and later wound up in the party-wired United Electrical Workers union. No one was more relieved by his departure than Drechsler, who had tangled with him for three years, but many of the workers, offended by his pro-Russian views, were also glad to see him go. To succeed him, the T.W.U.A. eventually appointed Jack Mermel, an ex-organizer who favored the company's experiment in labor-management cooperation.

About the same time management made an important change in its own ranks. It hired Edward O. Kolbert as assistant plant manager, and informed Ashton, whose antiunion views remained apparently unreconstructable, that Kolbert was expected to replace him within a year. Kolbert had helped direct plant operations for many companies, including Beech-Nut Packing Co., Pratt & Whit-

ney, and the Narragansett Machine Co. His actual experience with unions was slight, but he accepted them as part of the industrial process, and he had long ago discovered that low wages do not necessarily mean low labor costs.

Kolbert was shocked by the old-fashioned methods and attitudes he found in the plant, especially by the foremen's part in setting wage rates. This was one of the first things he abolished when he finally replaced Ashton as plant manager at the end of that year. "Goddammit," he told one foreman, "it's the first time I've seen a foreman setting rates, and it's going to be the last. It's no business of yours to say rates won't be raised, or how the company spends its money." Kolbert also shortly abolished the system whereby some foremen earned a bonus on production by keeping their labor costs down. He moved cautiously in trying to reeducate his twenty foremen to cooperate with the union; a few quit, but gradually even the toughest offenders began to reform.

Both management and the union continued to be pleased with Wood as a go-between. However, when Holderman became the executive secretary of the New Jersey State CIO Council, Wood's position grew shaky. One reason was that Holderman's successor in the T.W.U.A., Sol Stetin, believed a union man ought not to serve management so closely. Another was that union president Zeichner, steward Lombardo, and many others felt Wood was growing entirely too management-minded. In any case, the issue was settled when Wood resigned from the union and joined management's cost-accounting staff.

This did not end Wood's usefulness as link between management and the union. As a trouble shooter he continued his investigations and reports, sending the latter to Drechsler, President Reckford, Lewisohn, Kolbert, and also to George Grumback, who handled the company's cost-control system. Though no longer a union man, Wood remained the most pro-union man in management's ranks. This was especially evident in grievance sessions where he argued

now for, now against, one side or the other, while sitting on management's side of the table. Both sides came to depend on him for facts and figures on disputes. His calm judgment on an issue might not be accepted, but it frequently clarified and cooled down a discussion that was becoming explosive.

Few arguments nowadays get as far as a grievance session. Such sessions, in fact, are now held only about once a month, and sometimes they settle nothing very important but serve simply as an outlet for the feelings of both sides. Not a day passes, however, but that steward Lombardo is called hurriedly by phone to handle at least two or three disputes in the plant. The routine for dealing with these is now fairly standardized. The worker usually first takes his complaint to the union committeeman in his department and together they go to the foreman. (This compromise was worked out between management, which wanted the worker to go directly to his foreman, and the union, which wanted to establish its committeemen and committeewomen as the workers' champions.)

If the worker, the foreman, and the committeeman can't agree, Lombardo or Lewisohn or both may be called to the department. If Lewisohn backs up the union, the foreman is apt to smolder; and if Lombardo supports the foreman, he has the worker to mollify. But nine times out of ten the dispute is ended right there, by compromise or by setting the foreman and worker straight on their rights and duties.

Arguments that cannot be thus resolved are taken up by Lombardo and Lewisohn in their daily sessions, with union president Zeichner often sitting in. On his own, however, Zeichner makes a quick tour of the plant almost every day after lunch and stops by to see Lewisohn if he has anything to bring up. Zeichner is more restrained than Lombardo in his dealings with Lewisohn, using a kind of frank, verbal shorthand that presumes a profound mutual understanding of what both the union and the company want and

do not want. But occasionally neither he nor Lombardo can reach an agreement with Lewisohn on some basic issue—"job rights," for example—and the dispute then is scheduled for the next grievance session.

A two- or three-hour grievance session is usually enough to clear the docket of unsettled complaints. One of Mr. Drechsler's associates is always present at the grievance table, and any dispute that cannot be settled there goes to Drechsler who, as the "Supreme Court," has agreed to give an answer to any problem within one week. The result is that since 1940 only two disputes have gone before an outside arbitrator, and these were highly technical arguments involving the application of specific piece rates.

Otherwise the union accepts Drechsler's decisions. Lombardo puts it simply: "He's a helluva nice fella. If we convince him, O.K. Or if he convinces us." For instance, the union convinced Drechsler (and he convinced management) that wages should be raised 8½ cents per hour, not the 5 cents management offered. "I had to admit the union was right," Drechsler says, "but next year it may be just the other way round." His decision jolted even Lewisohn, who repaired to a bar with President Reckford and Wood where he ordered a gin and tonic. "What's that?" Wood asked. When Mr. Reckford explained it was "a drink they take for malaria," Wood observed, "Dick, that fever you've got is not malaria."

Cooperation between the union and management has come a long way since the strike. For one thing, the old continuous irritations over pay rates have been nearly eliminated. The original incentive plan of "task and bonus" rates that helped end the strike still applies where time-rate jobs are converted to piece-rate jobs, and workers who think the piece rates are too low can get a restudy of their jobs at any time. In addition, on several occasions when a new machine or setup has produced large savings, the workers involved have secured higher rates; management has agreed to no set

rule, but in some cases when a worker has been technologically displaced, up to half the savings have gone to those remaining on the job.

For its part, the union cooperates with management in keeping the workers aware that the company's sales and reputation depend on maintaining the quality of its pencils. Both Zeichner and Lombardo help to educate the workers in the importance of this. Thus when Zeichner recently heard that a girl who was packing Venus pencils was boosting her output by letting a lot of inferior pencils go by, he warned her to stop, and pointed out that such carelessness could cost her her job. "We still have to sell the workers on everything," Zeichner admits. Before management would grant any paid holidays, the union had to promise that the workers would be available on such days if needed, and that they would show up promptly after week ends and vacations. "In general," Zeichner says, "the workers have now been educated by the union to do a full day's work. And they come in on Mondays."

The union has also made progress in getting more advance information from management about the company's production plans —which may mean layoffs. For years, Lewisohn, Kolbert, and the foremen met regularly to discuss production problems, schedules, mechanical troubles, etc. The union resented being left out of these conferences, and asked to attend. Lewisohn refused, on grounds that these meetings usually dealt with technical questions that didn't concern the union. But he and Kolbert agreed to meet every week with Zeichner and Lombardo to discuss production and personnel problems that the union could help solve. Thus the union now formally gets some advance information that it previously received only informally. Though Lewisohn knows this probably doesn't satisfy the union, it is as far as he now thinks it useful to go. Zeichner is hopeful, but realistic: "We encourage management to give us more advance information on things they are planning to do. But let's face it. They don't."

The workers themselves, of course, could provide the most realistic picture of labor-management relations in the company, if all their opinions could be uncovered. Management is still criticized, especially in the dark and grimy lead department, another of whose derisive titles is "the dungeon." But the majority would probably concur with one committeewoman who said, "Management is pretty fair. Not that they hand us anything on a silver platter, but if you're right, and if you fight hard enough, you get it."

The fighting has often been prolonged. It was five years, for instance, before management granted the workers two weeks' vacation after five years' service, with shorter vacations proportionately. "I never thought I'd see the day," Zeichner says. Similarly, for years the union asked management to buy group hospitalization for its members, but management refused. Management professed to believe that most of the employees, the women especially, would rather have their pay raised by the cent and a half an hour the premium would come to. The union later asked management to deduct the premiums from the workers' pay, and believed management's real objection to this was the fear that the company would eventually be asked to pay the premiums itself. The matter was resolved when management agreed to a plan whereby a management-designated employee collected monthly premiums from those wishing to join the hospitalization plan.

The most delicate area in the company's internal relations remains between the workers and the foremen. There are still some foremen whose old-time attitudes occasionally rile the workers, but most of the foremen are trying to cooperate with the union, and to many of the younger ones cooperation is second nature. Even among the oldest there have been some surprising transformations. For example, Henry Thompson, who joined the company in 1900, was perhaps the most dictatorial, rate-setting "czar" in the company. ("I was the big shot. I was the only one who was right.") He opposed all unions, but especially the CIO. ("If it hadda been the AFL—

an established union—I wouldn't have been so suspicious.") It was more than five years before he saw that the union could save him a lot of time. ("Not that I have many complaints, but if *I* am unhappy about anything, I tell the committeeman about it. And when he has anything on his mind, ninety-nine times out of a hundred he'll come and tell me directly. It saves me aggravation.") His attitude toward employees is at once old-fashioned ("The help have rights") and cooperative ("I try to explain my problems, and the committeeman explains his, just as though it was our own little plant").

As for factory manager Kolbert, who undertook the conversion of the foremen—he wears no halo, in the opinion of the union. As the man who has to keep costs in line, he is management incarnate to the workers. His appearance in a department is enough to create a quick flurry of apprehension ("What's troubling him now?"), and after he leaves some workers mimic his brisk nervousness. "He's not bubbling over with cooperation," Lombardo says, "but with some persuasion we get along. He's big enough to admit when he's wrong."

This state of labor-management relations at the American Lead Pencil Co. might therefore be described as approaching minimal friction. Such frictions may diminish, but they cannot be expected to disappear entirely under either capitalism, socialism, communism, or any other system now known for balancing the complex desires of human beings at work. Nor is it possible to measure accurately the concrete benefits that both sides gained from their improved relationship. True, wages about doubled and average hourly earnings were among the highest in the pencil industry. But would they have risen just as high if management and union had remained at loggerheads? Statistically, management's gains were not much more definite. In nine years the production of pencils per man-hour, all employees included, rose by nearly 30 per cent. Yet

other factors (such as the installation of additional machinery, greater production of low-cost pencils, etc.) might well have accounted for more than half of this improvement, leaving a balance of less than 15 per cent to be credited to worker-management cooperation.

The greatest benefits from the improved relations in the company were clearly intangible. For the worker, they included greater security in the job, a sense of being treated fairly, confidence in the way wage rates were set. For management, real benefits included the absence of strikes, less time lost over grievances, cooperation from the union when layoffs were necessary. (One month, with the help of the union, nearly a fifth of the employees were furloughed without incident.) And above such gains, there appeared to be a much clearer basic understanding between management and the union as to their mutual aim. Mr. Zeichner put it this way: "We work on the principle if there are profits, we want some of them, but if not, we're willing to go along."

Argument over profits was inevitably limited by the fact that, with the exception of one war year, the company's net income remained less than 6 per cent of sales for eighteen years. And as labor and material costs continued to rise, the net fell to less than half of 1 per cent. In view of these hard facts, the steady improvement in the company's industrial relations was all the more remarkable. The relationship between management and union was complex, but the chief results were plainly these: mutual confidence, willingness to compromise, a mutual goal (a profitable company), good communications, and fast grievance machinery.

The specific ways in which American Lead Pencil's industrial relations evolved may not provide a pattern for any other company. But the three rules of behavior that Mr. Lewisohn followed are applicable by management in any company: "One: Be fair. See both sides. Two: You can't be in a hurry. It takes interminable amounts of time. I've sat for two hours on one grievance knowing full well we

weren't getting anywhere, but we could both blow off steam. Three: Be prompt in settling grievances. At first I always wanted to be sure I was right, so I delayed making decisions. But you have to make mistakes."

The success of the educational process at American Lead Pencil is heavily underscored by what has happened since this report was written. Mr. Lewisohn, who was elected president after the sudden passing of Joseph A. Reckford, realized that despite the union's cooperation, the company's old-fashioned plant was still too great a handicap in the losing fight against the competition of southern pencil makers. And in 1953 the company acquired a substantial interest in a pencil company which had a modern plant operating in Lewisburg, Tennessee. Most of American Lead Pencil's operations are now located there. Another major reason for this move was the desire to escape Hoboken's property tax rate ($85 per M), one of the highest in the United States. The union at first suspected that this move might possibly have been made to obtain the benefit of cheaper labor rates, but a survey which the union made indicated that the differentials were small. The union accepted management's decision to move, and a contract with the T.W.U.A. was readily negotiated to cover those workers (over a hundred) who continue to man the three departments left in Hoboken.

THIRTEEN

The Pitfalls of Profit Sharing

FOR MORE THAN A HUNDRED YEARS businessmen as well as social reformers have been beguiled and bedeviled by the promise of profit sharing. The belief that sharing profits with workers is the path to industrial peace and high production has been disproved over and over again. Yet owners and managers have continued to hope, particularly when profits were large and labor was asking for higher wages. The present is no exception. Since 1945 hundreds of companies, most of them employing less than 500 workers, have started sharing anywhere from 5 to more than 50 per cent of their net profits after dividends and taxes. Some of these schemes have already been abandoned, for one reason or another. But for two very different reasons it now seems possible that many more profit-sharing plans may not only survive but spread through industry to become a permanent and radically significant part of the U.S. economy.

The first and potentially by far the more important reason is that organized labor, which has damned profit sharing as an antiunion stratagem since the days of Samuel Gompers, is slowly but perceptibly beginning to champion the idea. Here and there local unions have for some time countenanced the practice and occasionally even helped management install a plan. The second reason why profit sharing may possibly become more widespread and permanent is that industry is beginning to recognize that there are some essential principles of profit sharing which it is perilous to ignore.

The evidence that management is adopting a new attitude to-

ward profit sharing is still confined to those companies which have learned the primary lesson that profit sharing will not buy employee good will, cooperation, or loyalty. Indeed, profit sharing by itself is likely to be repaid with antagonism, indifference, or suspicion. While profit sharing with executives can readily raise management's efficiency, employees' profit shares are rarely big enough to have this effect. In the long history of the practice, the one fact that blankets all others is that it can produce good results only where management has also sincerely done many other things to develop good labor relations. As a minimum, these things include paying the prevailing wage rates and providing the prevailing welfare benefits.

In short, profit sharing may sweeten good industrial relations; it does not create them. The truth of this has been demonstrated where profit-sharing plans have survived the longest—for example, at Procter & Gamble, which has had one since 1886, and at Sears, Roebuck, since 1916. In both these companies profit sharing was preceded by other evidences of management's interest in employee welfare, such as the 5½-day week at P. & G. and liberal sickness benefits at Sears. And both companies have continued to provide prevailing wages and many additional benefits along with their stock-ownership profit-sharing plans.

Moreover, many of the newest converts to profit sharing also seem to realize the prime necessity of good labor relations. Since 1947 some 350 companies have joined the Council of Profit Sharing Industries, one of whose resounding principles is that "no policy or plan in the industrial-relations field can succeed unless it is well adapted and unless it has behind it the sincere desire of management to be fair and the faith of management in the importance, dignity, and response of the human individual."

Unfortunately for the council—and for all would-be profit sharers —this broad principle is about the only one that all its members agree on. For American management, within and without the

council, is still of many minds about profit sharing. There is argument even as to what profit sharing is, let alone how it should be done, what its purposes are, and who should share. There is, in fact, probably less agreement about profit sharing than about any other aspect of management policy. If this seems surprising, consider the ramifications involved in the question, what *is* profit sharing?

Social reformers in France and England early in the nineteenth century regarded sharing in capitalism's profits as a *moral right* of the workers whose toil had helped produce them. This view was—and still is—offensive to classical economists, who hold that profits belong solely to proprietors or stockholders. But by the end of the century various plans for sharing profits had been tried by more than 300 companies in Europe and some fifty American companies. Many of these plans, however, did not meet the concise definition of profit sharing that the International Cooperative Congress laid down in Paris in 1889: "an agreement freely entered into by which the employees receive a share, fixed in advance, of the profits."

This definition contains what most students of the subject agree are the two essentials of "true" profit sharing: (1) the amounts to be shared should be definitely related to the company's profits for a specified period; and (2) management should be definitely committed *in advance* as to the share of profits to be paid. And a third essential is implicit: that *all* employees should share. By these conditions the congress at Paris clearly sought to make profit sharing an economic fact as well as a moral right. But management, especially in the United States, has too often ignored these restrictions, and has tended to confuse the concept of profit sharing with any practice for distributing to employees any sums over and above their salaries or wages.

Confusion over the nature of profit sharing was perhaps most thoroughly compounded in 1938 when a Senate subcommittee, at the instigation of the late Senator Vandenberg, made what is still the most exhaustive study of the practice in the United States. The

committee reported that of 9,000 companies having employee benefit plans, 728 were sharing profits. To the committee, however, profit sharing meant "all payments to employees, regardless of the form in which they are allocated or distributed, which are in addition to the market or basic wage rate." Given this latitude, it was not surprising that in testifying before the committee the late Edsel Ford said, "We started out by announcing a profit-sharing plan in January, 1914, by introducing the $5 minimum wage, which was an increase of 28.5 cents an hour over the going rate of 34 cents per hour at that time."

The diversity of management opinion as to what constitutes profit sharing was most recently revealed by a graduate student at St. Louis University, the Reverend James Hartnett, who queried nearly 3,700 companies in metropolitan St. Louis. Four hundred companies—more than half of those responding—stated that they had some form of sharing profits with their employees. Their sharing embraced the following collection of plans: bonus, incentive, wage dividend, multiple management, contributory retirement, noncontributory retirement, trust, production sharing, cost-saving sharing, guaranteed annual wage, employee stock ownership, health fund, Christmas bonus, salesmen's bonus—and profit sharing. Only twenty-one companies were practicing "true" profit sharing. However, Father Hartnett found 123 other plans that met the definition promulgated by the Council of Profit Sharing Industries, which published his survey.

The council's definition is better than the Senate subcommittee's, but since the council crusades for members the wording has been stretched wide enough to cover an extraordinary variety of plans. According to the council, profit sharing is "any procedure under which an employer pays to all employees, in addition to good rates of regular pay, special current or deferred sums, based not only upon individual or group performance, but on the prosperity of the business as a whole." The council lists ten broad categories of plans, but

to the layman most of these would seem identical to those *non*profit sharing plans in Father Hartnett's list. Moreover, no two plans are identical, since each company almost always tailors its own. Most simply, plans can be divided into four groups: cash; deferred payments; cash and deferred; and deferred with employee contributions. But these will vary enormously in detail—eligibility of employees, ways of determining the total and individual sums to be shared, timing and conditions of payment, administration, etc., etc.

Despite all these differences the range in the per capita amounts contributed by profit-sharing companies may be relatively narrow, as the table shown below suggests. Such averages, however, do not reflect the full benefits provided by some plans, most notably those in which payments are deferred and invested for retirement or other purposes. The adoption of deferred plans has been accelerated in recent years by rising taxes (which bite hard into cash payments) and by the general desire for "security." When such plans include

---

The Economics of

Company	*Earnings (after taxes) as % of capital*	*Dividends as % of capital*
Motorola	48%	13%
P. R. Mallory	22	5
Sears, Roebuck	21	9
Eastman	17	7
Pitney-Bowes	15	9
Avondale Mills	13	5

Profit sharing follows no standard economic pattern, but will vary according to management's objectives. In the random selection of well-known profit-sharing companies shown in the table above, the per capita amounts shared in 1950 actually differed far less than dividends, return on capital, size of company, etc. Earnings shown reflect the fact that

employee contributions, the money accumulates fast. Thus over a period of thirty-five years Sears' stock-ownership profit-sharing plan piled up a fund valued at more than $350 million, of which the company contributed some 45 per cent and the employees 15 per cent, while the balance included interest, dividends, and an appreciation of $118 million in the market value of the Sears stock in the fund. The 104,000 employees in the plan had an average investment balance in the fund of $608 in cash plus fifty-two shares of stock worth some $2,700. Old employees, of course, have much more to their credit; for example, a bookkeeper with thirty years' service put in $3,000, withdrew $5,000 for personal use, and still had $4,000 in cash and $38,000 worth of stock.

Many companies, however, prefer cash profit sharing, and if the plan is tied to an incentive system the average annual shares may be spectacular. The widely publicized system at the Lincoln Electric Co. in Cleveland, for instance, has paid extraordinary bonuses

---

Profit Sharing (1950)

Profits shared, % of capital	*Profits shared, % of earnings (before taxes)*	*Number of participants*	*Total shared (in millions)*	*Average share per employee*
9%	9%	4,000	$2.3	$555
15	33	4,500	1.8	400
5	10	104,000	31.3	300
5	15	46,500	18.1	390
9	31	3,000	1.1	385
9	36	6,000	2.1	360

profits shared, unlike dividends, are deducted as costs. Since shared profits are usually tax-exempt, their actual cost may be less than 50 per cent of the amounts distributed. All these companies, except Pitney-Bowes, determine *in advance* the percentage to be shared, a condition commonly identified as "true profit sharing."

to employees since 1934, and in 1950 the average payment amounted to 137 per cent of base pay, bringing total average earnings for all employees, including executives, to $6,750. Each year all profits are distributed after taxes, dividends, and what President James Lincoln calls "seed money" have been deducted. Since the total—$3,900,000 in 1950—is not a predetermined proportion of profits, the Lincoln system does not qualify as "true" profit sharing. However, Mr. Lincoln is a charter member and trustee of the council, and his emphasis on incentives raises a second big question on which management opinion is sharply divided: What is the purpose of profit sharing?

It is not hard to understand why Mr. Lincoln is convinced that the sharing of profits should be linked with an incentive system. He has pointed out that since his plan was installed in 1934, production per man has increased sevenfold, annual take-home pay fourfold, dividends have tripled, earned surplus and undivided profits have doubled, while the company's prices still remained below prewar levels. These results, in his opinion, were due not merely to large bonuses but to an extensive merit-rating system that determines each employee's share, based on his output, contributions to efficiency, cooperation, and attitude—plus Mr. Lincoln's final judgment of his worth.

As others have pointed out, however, the Lincoln system owes at least some of its success to other factors. Mr. Lincoln's own business ability is one, and others are that the company is the leader in its field (it sells about half the electric welding machine and electrode market) and obviously has continued to enjoy a wide margin of profit despite the lowering of its prices. Also, since the Lincoln family controls the company, he is not obliged to pay more than the 6 per cent dividend that he considers the full reward for invested capital. And, finally, he has no union to bargain with.

Under such conditions the sharing of profits clearly can be an effective incentive. But few companies, especially large companies,

are so situated. Take the failure of profit sharing at G.E. The plan the company started in 1934 originally covered some 40,000 employees having five years' service, and in 1936 the average share amounted to only $70, but management considered that this was "sizable and showed a measure of effectiveness." Then the union demanded that the plan cover all employees after one year of service, and by 1946, with 123,000 participating in a smaller total distribution, the average annual share had dwindled to $17.64. When the union refused to consider profit sharing, pensions, and other benefits as reasons for reducing its wage demands, G.E. dropped its plan. Since then Vice President L. R. Boulware has repeatedly argued that the employees know that their individual efforts have little effect on the company's profits and "are more concerned with their weekly pay check than they possibly could be with an infinitesimal bonus handed out to them some months after the year's end."

Managements that believe in profit sharing, however, disagree violently with Mr. Boulware and hold that G.E. could expect no more from its "infinitesimal bonus." G.E., they argue, didn't begin to share enough. For example, if G.E. had distributed, say, 25 per cent of its $173-million net profit in 1950—or about half what went to its stockholders—the average employee share might have been close to $240. This would undoubtedly have been welcomed by G.E.'s employees. Nevertheless it still might not have proved much of an incentive to do better work. For the experience of successful profit-sharing companies has shown repeatedly that unless the shares are very large in relation to wages, they don't move employees to more efficiency.

It is also only natural that employees may come to take such extra money for granted, and to resent it if the amount shrinks or disappears. But if employees have confidence in management, if they can see some connection between their work and the company's showing, if they have a hand in choosing and administering the plan and understand it—then profit sharing is likely to produce some

of the results claimed for it. These may be lower turnover, more efficiency and productivity, cost savings, suggestions, and similar operating benefits, including higher profits.

Such benefits, moreover, may occur when there are no profits to be shared. For example, in 1949 the profits of Gerstenslager Co., maker of truck bodies in Wooster, Ohio, were wiped out by the steel strike in the last quarter. The employees responded by working out ways to raise output from eighteen to twenty-four bodies a day, which the next year produced for them an average $357 share of the profits. Such a response was largely due to the fact that the company's president, E P. Martin, had won the employees' confidence in profit sharing after hours of discussing a proposed plan with three employees, getting their suggestions and changes, having them discuss it in turn with three other employees, and so on until the whole company was talking it over. When the plan went in, the employees understood it and felt some responsibility for it.

Managements that have followed the cooperative approach to profit sharing realize that this is much more important than the share involved. Under the plan at Pitney-Bowes, Inc. (postage meters), for instance, more money has been shared with the employees since 1947 than has been paid out in dividends; yet President Walter Wheeler, Jr., thinks shared profits are no more than "earnest money" that shows management's good faith. Along with Mr. Wheeler, who is a staunch supporter of the Council of Profit Sharing Industries, Denton K. Swartwout, another council booster and president of Cleveland's Swartwout Co. (steam and ventilating equipment), has warned that if management adopts profit sharing in order to have "more satisfied shop workers, or have more profits left over for the business or the stockholders, that will be doing the right thing for the wrong reason." He holds that if management shares profits for the "right reason," *i.e.*, because the employees help earn the profits, then "you are given an insight and a determina-

tion and a power to carry through. . . . What is more, your sincerity will be very apparent to all."

Most managements, however, have more tangible motives for adopting profit sharing. A former council chairman, William Loeb, publisher of the Manchester, New Hampshire, *Union Leader*, thinks that management is chiefly interested in the "practical success" of profit sharing, which to him is the way to combat socialism by making "every workman a capitalist."

But managements have tried profit sharing for other reasons that have done much to discredit it in the eyes of employees. The oldest and perhaps still the most widespread motive behind profit sharing is rarely mentioned by management: the hope that it will "keep the union out." In some cases, notably at Lincoln Electric, the hope has been realized. Mr. Lincoln, in whose opinion collective bargaining is "civil war," believes that if industry had adopted profit sharing early and generously, labor would not have organized against management. Theoretically, at least, he may be right, but the fact is that labor was organized and unions have since regarded profit sharing with suspicion or virulent hostility.

Union antagonism to profit sharing covers a wide range of grievances. Management is charged with using it to depress wage rates and avoid increases; to speed up the worker, tie him to his job, and make him share losses incurred by management; to weaken his interest in unionizing or his loyalty to a union. Unions also attack management's unilateral control and administration of profit-sharing plans, and suspect the policies and accounting practices that determine profits. Since at one time or another management has abused profit sharing in all these ways, most union leaders have agreed with John L. Lewis, who told the Senate subcommittee in 1938: "I think the profit-sharing idea is rather a delusionary snare, as far as modern industry is concerned."

Furthermore, profit sharing has earned a bad name even where management has cooperated with unions. This has often happened where management has adopted a plan for rewarding its executives, and recent surveys have indicated that perhaps half of all profit-sharing plans are limited to managerial levels. Such restriction, of course, may allow the average share paid to be many times what it would be if all employees were covered. It also supports a common management conviction that profits should be shared only among those most responsible for producing them. But managerial profit sharing alone can be a potent source of friction, since employees are apt to resent it as "discrimination."

On at least two other scores the motives of management in adopting profit sharing may appear suspect to employees. One is the tying of pensions to profits. A pension trust based on a percentage of the profits is the only way some companies can afford to provide retirement benefits; and the funds in such plans in recent years have grown much faster than those in orthodox funded pension plans. But the fact that management asks the employee to accept a pension that may be cut by lean and profitless years can easily be interpreted as an evasion of management responsibility. At the same time, management's interest in the tax-exemption privileges of profit-sharing plans has often appeared more intense than its concern for employees. In one consultant's opinion, half of all existing profit-sharing plans might be dropped if the government made them taxable (as they were before 1921).

While the motives of management and the dissatisfaction of employees and unions have created the biggest obstacles to profit sharing, they are not the only barriers. The hard realities of economics, for one thing, have not only blocked the practice but have killed many well-intentioned plans. Failure to produce profits is not necessarily fatal to a well-grounded plan, but it has been a major cause of death among some of the older plans.

For example, the Simplex Wire & Cable Co. of Boston installed

a plan in 1901 and for twenty years the sharing averaged 10 per cent of payroll. Then competition, overcapacity, and other pangs of an aging industry began to cut profits; by 1942 the sharing was down to 3½ per cent and, despite a heavy wartime volume of business, the plan "died at 3 per cent" the following year; at the union's request, President Everett Morss abolished profit sharing for all production workers. His experience convinced him that the practice is fine when a company is in a young and growing industry, but disappointing in the long pull through business cycles.

This disillusioned view of profit sharing is shared by those who defend their position with broad statistics. One figure they cite is from the Senate subcommittee's 1939 report: "some 40 per cent of companies show income statement losses instead of profits." Therefore, they argue, such a condition implies sharing losses as well as profits. An obvious answer to this, of course, is that employees of a profitless company do share the losses, in layoffs or complete loss of their jobs. Almost all profit-sharing companies recognize that since the employee risks his time and labor he should not also be asked to share capital's risk. Westinghouse's late plan (d.1942) was a rare exception, providing for wage cuts (up to 10 per cent as net profits fell below the $600,000 level). However, Westinghouse abandoned profit sharing not because of this provision, which never had to be exercised, but because the company thought government regulations on contract renegotiations would "prevent it from reporting definite figures monthly or even yearly."

More impressive statistics against profit sharing are the mortality tables compiled on the practice by various investigators. Perhaps the most quoted figure is the National Industrial Conference Board's finding in its 1937 survey, which showed that 60 per cent of 161 profit-sharing companies had given up. The 1947 survey showed only a 17 per cent mortality, but in 1949 an analysis by Industrial Relations Counselors Inc. showed a 42 per cent mortality even among seventy-eight plans adopted in the high-profit war

years. Yet the 1945 survey by this firm also showed that while 30 per cent of 209 plans were discontinued, only 10 per cent were dropped because profits were lacking or inadequate. Of the other 20 per cent, half were replaced by retirement, or straight-bonus or revised profit-sharing plans, and half failed for various other reasons —"employee lack of understanding," "alleged discrimination" (executives only), "poor incentive," and "company reorganization or merger."

The economic arguments against profit sharing, in short, are not too conclusive. It has failed often for lack of profits, but it has failed most often because management either did not know how to apply it, or was unwilling to take the steps implicit in actual profit sharing. These not only cover everything ordinarily involved in creating good labor-management relations; they also imply two moves that few managements are yet ready to make. One is to allow employees to help work out the plan; the other is to let them administer it jointly with management.

The possibility of such cooperative profit sharing has naturally stirred management's deepest anxieties. It has been assumed that if the practice went that far management might as well abdicate, for the employees would want all the profits and, where they were organized, the union would quickly demand "a look at the books" and a voice in every policy or risk that might affect earnings. Some of these assumptions might prove quite true for any company with a consistently bad labor-relations record. But so far at least, companies that have tried cooperative profit sharing have not found the employees or the unions swarming into the front office to seize management's prerogatives.

In some cases profit-sharing terms have been left almost entirely to the employees. In Iowa City, for example, the forty-one employees of Dean Jones Sales & Service held meetings most of one summer with a state-university economics teacher, Kenneth Thomp-

son, who has specialized in profit sharing. With his technical help, they worked out all the rules, reserving to themselves the power to change them. Moreover, they agreed that everyone should get equal shares—a rare decision also adopted by the employees who chose the plan for Daisy Mfg. Co. (air rifles). Finally they agreed with management to accept Thompson's recommendation that 25 per cent of profits before taxes be shared. In 1950 the plan paid each of the employees $578—and it was *their* plan.

Management cooperation on profit sharing with local unions may be equally informal. The terms of sharing are usually left out of union agreements, mainly because most unions still prefer to keep completely free to bargain over wages regardless of any profit shared. However, profit sharing is now a firm part of some contracts. For example, in the agreement between the Michigan Tank & Furnace Corp. and Local 789 of the CIO Auto Workers, participation is based on seniority "together with any other factors the company and negotiating committee may agree upon"; and if the union questions the profit figures, it has the right to get them verified by any other C.P.A. firm acceptable to management. Such agreements do not, of course, ensure the success of profit sharing, which, to reiterate, is ultimately dependent on the mutual confidence between management and employees and unions. The significant fact is that profit sharing has successfully entered the area of collective bargaining.

How far and fast profit sharing will grow in that area remains to be seen. For large unions, the main question is whether they will bargain for a plan whose success requires cooperation with management, or will continue to rely solely on opposition tactics to increase the workers' share of profits. For management, the question could be put somewhat differently: Will it accept profit sharing under collective bargaining as one more means of gaining the worker's confidence and cooperation, or will it continue the practice as benevolent paternalism that may improve efficiency, prevent unioni-

zation, or even—as the Council of Profit Sharing Industries puts it —"preserve the American system of free private enterprise"?

But these are not the only questions that profit sharing raises. For if labor and management should generally cooperate in such sharing, then the consumer could be expected to wonder what share of the profits would go to him in lower prices. This point would be immediately pertinent in the case of public utilities that are regulated to convert extra profits into lower rates rather than share them with employees. And there is finally also the chance that if profit sharing became widespread, Congress might be led to legislate national policies on its terms and conditions. Venezuela and Brazil, for instance, have already made profit sharing a legal necessity, and in France profit sharing was one of the main points in de Gaulle's platform. Such steps do not seem likely in the United States now—but neither did the Wagner Act seem possible in 1930. At any rate, it is plain that successful profit sharing implies far more than cooperation between labor and management. It could, indeed, eventually produce profound modifications in the whole structure of modern American capitalism.

EXECUTIVE COMPENSATION

All executives today know personally that executive compensation is a very real problem. In view of the bite that taxes and inflation have put on executive pay, more salary is no longer the best answer. Any satisfactory financial answer is now usually a complicated equation in law and taxation which aims to keep the benefits to the corporation and to the executive in balance. A better answer, in many cases, is for the executive to get another job. Neither of these answers is easy, but an executive should know the complications of both. Those he may meet in seeking a financial solution to his compensation problem are presented in a summary of an authoritative book by two experts in this field. And the troubles he may expect in job seeking are set forth in a report on the techniques, blunders, and frustrations of executives on the prowl.

FOURTEEN

How to Pay Executives

A BOOK WAS PUBLISHED in 1951 that appears to have mapped the possibilities and the hazards of executive rewards about as clearly as the law and government allow. This 586-page, $12 book entitled *Compensating the Corporate Executive* * is the work of two lawyers, one of whom, George Thomas Washington, is a judge of the U.S. Circuit Court of Appeals in Washington, D.C., while the other, V. Henry Rothschild II, is a New York corporation lawyer who formerly served as a member and chief counsel of the Salary Stabilization Board. Necessarily, much of what the authors have to say in their book is so buried in legal prose and so heavy with footnotes that it will be primarily useful to lawyers and accountants whose job it is to protect corporations, directors, and management from the innumerable legal pitfalls surrounding top-level compensation. But for their own protection, executives and directors would do well to peruse the contents of this book.

Executives, in particular, would find the Washington-Rothschild study of managerial rewards most immediately pertinent, since the problems it deals with critically affect their incentives. Prestige, power, and the satisfaction of doing a job may be more important than money for most executives, but money still talks powerfully, even as a sign of status in the corporation. Yet the executive, caught in a three-way squeeze between high taxes, government controls, and inflation, has a major job on his hands if he wants to improve his financial position.

* George Thomas Washington and V. Henry Rothschild II, *Compensating the Corporate Executive*, rev. ed., the Ronald Press Company, New York, 1951.

Part of that job has been a struggle against statistical odds whose impact is indicated by the fact, for example, that in recent years the take-home pay of a $100,000 executive who was married, with two dependents, would buy what $23,000 would have bought in 1939. But the squeeze on management's income has also raised other questions. It has, for instance, greatly strengthened the now common conviction of executives that they have a right to a share in the profits and capital they have helped to produce. This and other assumptions have in turn created a long series of problems involving not only the corporation and its executives but its directors, stockholders, customers, and the public as well. What is "reasonable" compensation for an executive? What share of profits and capital should go to management? How should this be done—through profit sharing? Stock bonuses? Stock options? Stock purchase? Tax reimbursement? Deferred compensation? Pensions? Annuities? Insurance? How are such plans affected by tax and corporate laws, by court decisions, by securities legislation, and by government controls?

The field of executive compensation has become such a jungle of technicalities, opinions, and practices that it baffles the best of corporation lawyers. Even a book many times the size of the Washington-Rothschild work could not begin to cover all the possible ramifications. However, the authors have cleared an enormous lot of ground by revealing in specific detail the actual compensation practices of corporations, directors, and management, notably those revealed in SEC statements and executive contracts. These details, together with numerous statistical analyses, provide an extraordinarily comprehensive picture of a subject that is still the most private business of American businessmen.

Herewith a highly condensed and partial summary of what Washington and Rothschild discovered—and concluded—about executive compensation in U.S. corporations.

As the authors make plain in their opening chapter, the problems of executive compensation can be expected to grow worse. Management, stockholders, labor, and the government are all pressing for a bigger share in corporate earnings, while high taxes and controls accentuate the pressure. The pressure, moreover, has been building up for more than thirty years; indeed, management's drive for higher rewards began shortly before World War I. Up to that time, top management was almost universally regarded as hired help; one survey of salaries paid to the ranking executives of 400 manufacturing companies in the decade prior to 1914 showed a yearly average of $9,958.

But by 1914 the "professional executive" was beginning to take over the top corporate duties wherever children of the original owners were unable or unwilling to do so, and the corporation president, wielding his influence, became a public figure. Salaries climbed rapidly. Four railroad presidents, for example, were receiving $75,000 in 1914 and by 1921 one had reached the $100,000 bracket. During the twenties salaries kept climbing but top management's biggest rewards came through bonuses and profit-sharing plans, which by 1928 had brought to some executives annual earnings of more than $1 million.

Though the 1929 crash punctured bonus and profit-sharing plans, many executives received increases in their fixed salaries, and, while some took cuts, all who kept their jobs reaped the benefits of falling prices. The result—typically understated by the authors—was that "during the depression the executive class as a whole probably suffered less than the rest of the population." However, stockholder suits and investigations by equity receivers, bankruptcy trustees, and the Federal Trade Commission shortly exposed the high rewards of the boom years, and led to New Deal securities and tax legislation, particularly securities-exchange regulations that compelled corporations to disclose top-management salaries and bonuses. Thereafter

directors grew more cautious about such payments. And tax increases soon popularized other types of supplementary compensation, particularly deferred payments and pension plans.

This trend was speeded up in World War II when deferred-compensation and pension plans were generally excluded from government salary controls. The sharp hike in income taxes, however, rapidly became and is still the most important single factor in determining executives' pay. For example, the salary of du Pont's chairman, Walter S. Carpenter, Jr., rose from $78,570 in 1923 to $175,000 in 1948, but his actual take-home pay dropped by $12,500 in that period. Another factor inhibiting the rise in executive rewards has been organized labor's antagonism to big salaries, which has made directors wary of compensation plans that may affect collective-bargaining negotiations. And again in 1951 compensation policies for top management became subject to direct control by the government.

Against this background the authors examine the record of payments to executives as revealed in various surveys over a period of fifteen years. Old and new statistics generally bear out a central fact that the percentage of corporate earnings paid out to top executives decreases rapidly as profits increase. Thus an American Management Association survey in 1950 of 411 companies in twenty-two industries showed the following range: companies with net profits of less than $500,000 paid the top three executives 88 per cent of such earnings, while in companies earning over $15 million the top three men received 1 per cent. When "working" directors and non-director officers were included, top management's compensation ranged from an amount equal to 157 per cent of net profits in small companies down to 2.7 per cent in large companies.

Such figures, of course, are no indication that management is either overpaid or underpaid. Moreover, the authors conclude that the statistics "generally appear to show the absence of any fixed relation between executive compensation and either profits or

sales." * At the same time the authors do not expect top management to remain satisfied with its present share. They argue that while the stockholder may claim that management should hand over the company's profits, and while the law holds management responsible to its fiduciary trust, large stockholders recognize "the concessions which it is advisable as a practical matter to make to management in order to get it to function with efficiency and enthusiasm." And, they add, "the same thing applies to labor."

Many stockholders have argued that the "concessions" made to management are not "reasonable." The authors, however, show that "reasonable" compensation is practically impossible to define. From the executive's viewpoint, it can be whatever he thinks another company would pay him or has offered him, or whatever he can bargain for because of long service or some specialized knowledge of the company. A chief bookkeeper, for instance, might conceivably have so complicated the company's books that they are comprehensible only to him, and the company may consider it cheaper to overpay him than to risk losing his "indispensable" knowledge.

More often, however, a company may justify high salaries as essential for the morale of lesser executives, or to maintain the differentials in the corporate hierarchy, or to attract and hold able men. There is also the argument that large salaries are justified as necessary to prevent an executive from going into business for himself. But the authors consider this argument "chiefly theoretical," since the talents of a successful executive usually are "totally different from those of the successful entrepreneur." Whereas the executive needs to work through an organization and through people, and is concerned with his company's long-range continuity, the entrepreneur is an independent operator who "must inevitably be something of an opportunist."

* This is supported by an N.I.C.B. survey of top executive rewards in 567 companies: while average compensation rose 75 per cent from 1940 to 1949, within each of the forty-five industries surveyed, the compensation increases did not vary directly with sales increases.

However, the authors are extremely careful not to commit themselves on what they admit is the central problem of executive compensation, *i.e.*, whether or not the executive is in fact entitled "to receive the rewards of an owner-controller as well as those of a hired expert." With judicial caution they merely point out that the professional manager, no longer a hired man but a leader and policy maker, now demands to be allowed to share in the profits. "If we think of him as a replaceable cog in a machine, it is simply foolish to pay him more than the rate at which a person of approximately the same ability and experience could be obtained. If, however, we think of management's contribution in terms comparable to the contribution of the stockholder, there is basically no more reason to impose a limitation upon compensation paid to executives than there is in the case of dividends."

The authors cautiously refrain from making any choice between fixed salaries and special forms of additional income. If incentive compensation is adopted, however, they warn that "the executive will damage his own cause if he insists upon being given the ultimate dollar to which he believes himself entitled." Twenty years ago executives in large corporations could quietly draw down huge salaries and bonuses without even the directors knowing the exact amount. Evidences of such secrecy and self-serving were clear in the National City Bank case and other big litigations cited by the authors. Since then the compulsory disclosure of compensation plans has made executives indirectly subject to public opinion, and the authors think top management will become increasingly subject to government control if it does not convince the public that it has set its own standards of self-denial.*

* In 1941, while he was a Cornell law professor, author Washington wrote *Corporate Executives' Compensation* (Ronald Press, New York), which contained the results of exhaustive digging into corporate, government, and legal practices involving executive compensation, especially those made public under federal securities laws. He concluded that the compensation practices of corporations were shaped not so much by the courts or legislatures as by the

The fact that in the past corporations and executives have been secretive and self-serving about compensation plans accounts for some of the legal restrictions such plans now face. But the major restrictions today are those involving taxes, and in effect the government's tax regulations have separated the interests of the corporation and the executive. For the corporation, rising corporate tax rates reduce the costs of executive compensation. They also make directors more willing to approve larger executive expenses that will lower the company's taxable income. "Pressure in this direction," the authors point out, "is particularly strong when the officers are also stockholders; by taking a larger share of the company's profits as compensation, they may—at least in some circumstances—succeed in reducing the tax load on the corporate taxpayer without correspondingly burdening themselves as individual taxpayers. Furthermore, by depleting the corporation's assets, estate and inheritance tax problems are diminished." However, "the important thing [for the corporation and stockholders] is to be sure that payments to executives do not exceed the bounds of legitimate business expense."

On the other hand, the executive usually expects three things from a compensation plan: "(*a*) to avoid paying a tax on a merely illusory benefit, *e.g.*, stock which is never delivered, or which turns out to be worthless; (*b*) to spread his compensation (and hence his tax payments) over the longest period which can conveniently be arranged, thus obtaining continued income and avoiding the higher tax brackets; and (*c*) to avoid paying an unnecessarily high estate tax."

Tax regulations and court decisions, however, are making it increasingly difficult for a company to set up a plan that allows both the corporation and the executive to claim tax deductions. The authors find "a significant tax trend [observable in deferred com-

documents that lawyers carefully drew up in their attempts "to place their clients beyond attack."

pensation and stock-option plans] toward denying the corporation the right to a deduction" when the payments under a plan offer attractive tax advantages to the executive. To attract or hold the executive, the company will now usually sacrifice its own tax advantages.

This tendency to guard management's income has raised violent stockholders' complaints. In one case, the charge was that President Charles P. Skouras and other executives of Twentieth Century–Fox had engineered a personal capital gain of $6,800,000 on subsidiary Fox Films shares that the parent company had issued to them and then bought back at a higher price. Instead of considering this payment as executive compensation and deducting it on its tax return, the company passed up the deduction so the executives could claim a capital gain. Similar treatment was given to stock options granted to top management. In the settlement reached in 1948, the executives agreed to forfeit two years of their pay under percentage contracts, and Skouras' share was reduced for the seven-year balance of his contract. Fox Films, after buying back part of the stock issued to the executives, saved a total of $1,938,000—but two-thirds of this went out in taxes and legal fees.

As relations between the executive and the corporation have grown more complicated, there has been a tendency by both to insist on a firm, written contract. Though the authors point out that such a contract "will not be quite so hard and fast as it looks on paper," some contain a whole string of clauses, beginning with those covering hiring, performance, and compensation and extending to such special matters as status, arbitration of difficulties, and indemnification against lawsuits. Even in the case of clauses that are fairly well standardized—the hiring clause, for instance—corporate practice differs.

Some companies merely "employ" the executive without defining his position. U.S. Rubber Co., for example, hired Francis B. Davis

to serve "in an important managerial or executive capacity with such duties as may be assigned to him from time to time" by the directors. Often, however, executives insist that the dignity of their position be protected by specific title and authority. Usually the salary is fixed, yet the Woolworth Co.'s contracts, for instance, have traditionally left even this to the directors' discretion.

A most important contract clause today is that covering the executive's expenses, since legitimate business expenses may be tax-free for both him and the company. The clause may set a maximum figure for entertainment outlays, such as the $20,000 limit allowed Louis B. Mayer by Loew's, Inc. Or it may set a flat sum and cover specific expenses; thus President J. Spencer Love of Burlington Mills Corp. has been allowed $25,000 a year to maintain, equip, and staff four separate residences, three in North Carolina and one in Florida, for "the duty of entertainment."

When the facilities paid for by a corporation are obviously luxuries, they have been disallowed as tax-exempt. Lanteen Medical Laboratories, Inc., for instance, was held taxable for the golf course and the landscaped ranch with "imposing dwellings" that were provided for one executive. Yachts have been an allowable expense for entertaining customers, but considered taxable when used for pleasure as well as business. And the executive is likely to be taxed for the use of such "perquisites" as company cars and apartments when they are provided as part of his compensation. In any case the authors warn that the executive today had best keep detailed substantiating records of his expenses if he wants to avoid the tax collector. One executive whose expense records consisted chiefly of checks made out to cash and "self" had his tax deductions reduced from $10,300 to $444.

But it is the profit-sharing clause of executive contracts that most reveals management's efforts to increase its rewards. Surveys have shown that since 1920 profit sharing has been adopted by perhaps 25 per cent of U.S. corporations. Where profits have been good,

bonuses have often been generous; an N.I.C.B. study in 1950 indicated that for corporation presidents bonuses ranged from 54 to 84 per cent of salary, and from 23 to 37 per cent for other executives.

Executive profit sharing may be related to any one of several significant figures, including salaries, dividends, payroll, and sales as well as earnings, but the common basis is a predetermined share * of the consolidated net profits. Sometimes this share has become fantastically large as corporate earnings boomed, resulting in stockholder suits and public condemnation.

The classic case cited by the authors was the exposure of the bonuses paid to the late George Washington Hill and five other executives of the American Tobacco Co. A 1912 bylaw gave this management group 10 per cent of the net profits above the 1910 earnings figure ($8,222,245), and while by 1921 this produced a bonus of less than $360,000, in 1929 the men received $2,670,000 over and above salaries and stock rights valued at more than $1 million. In 1931 a minority stockholder, Richard R. Rogers, filed suit attacking both bonuses and stock awards. Though he lost in the circuit court, the Supreme Court in 1933 upheld his complaint about the bonuses, ruling that "the payments under the bylaw have by reason of increase of profits become so large as to warrant investigation in equity in the interest of the company."

This *Rogers* v. *Hill* opinion remains a judicial landmark in executive compensation, for it was the first time the Supreme Court had suggested that management's share of the profits might "amount to spoliation or waste of corporate property." The Court, however, did not find the bonus percentages in themselves "unreasonable." Eventually a settlement of the case was approved by a district-court order restricting future profit shares, ultimately fixed for President Riggio (who succeeded Hill in 1946) and the five executives at 5 per cent of net earnings over $15,500,000.

* It thus differs from employee profit-sharing plans where the share is rarely fixed in advance—a characteristic of "true" profit sharing as defined by an international congress in 1889. See Chap. 13.

Most companies now include one or more limitations in profit-sharing clauses. The ceiling may be a specific dollar figure or a percentage geared to earned or paid dividends, or even both. For example, the contract between Allied Stores Corp. and its president, Charles E. McCarthy, stipulated a $50,000 yearly salary plus three-fourths of one per cent of the difference between net profits and the annual preferred-dividend requirement, up to a maximum of $75,000.

Contracts may also limit profit sharing to a percentage of earnings above a specified return on invested capital, or to percentages of salary. Executive bonuses at the Borg-Warner Co. have been thus limited to 100 per cent of the first $15,000 of salary, 75 per cent of the next $20,000, and 50 per cent of anything over $35,000. Similarly, decreasing percentages of net earnings are often in bonus clauses. In the contract between Columbia Broadcasting System and its former president, William S. Paley, the percentages ranged from 5 per cent on the first $1 million of net profits down to 2 per cent of profits over $3 million. A contract may also put a floor under the bonus—the $15,000 minimum additional compensation, for example, which was granted to President Robert H. Morse of Fairbanks, Morse & Co.

In addition to such limitations, directors often insist on other restrictions to protect the stockholders' interest. In computing the net earnings available for bonuses, various deductions may be made, including federal, state, and municipal taxes, depreciation charges, write-offs and reserves, capital, and nonrecurring gains and losses. Sometimes even the bonuses payable to other executives may be deducted in figuring individual shares, though, as the authors point out, such deductions, like those for taxes, "will require the accountants to employ a little algebra." Deducting nonrecurring capital gains is a "recent and apparently sound trend" since it confines the executive's share to operating income he has helped produce. Du Pont's Merit Bonus Plan, for instance, excludes participation in

income from investment capital, including its General Motors stockholdings.

The complications and risks of ordinary profit sharing—and only a fraction of these have been presented above—seem relatively simple compared to those involved in rewarding management with shares of stock. The layman who attempts to follow the authors of *Compensating the Corporate Executive* in their discussion of stock-bonus plans, stock options, and stock-purchase plans will soon find himself in a bewildering forest of legal nuances, financial details, and tax problems. Here it is possible to look at only a few of the big trees.

"True" stock-bonus plans, *i.e.*, those tied directly to earnings, have been extremely rewarding for the participants, particularly when the plan involves management trusts such as those set up by General Motors and the Chrysler Corp. General Motors' Management Securities Plan, for example, which was organized for seventy executives in 1923, had by 1930 produced a whopping $245 million in bonuses. But mounting taxes and Treasury regulations have taken the bloom off such plans, especially since the courts held in 1945 that bonuses paid out by such trusts were taxable as ordinary income and not as long-term capital gains.

The chief difficulties encountered by stock-purchase and stock-option plans revolve around the question as to whether the executives' profit on such stock is compensation for services, and so taxable at higher-bracket income rates; or whether it is a return on an investment, and so taxable at the capital-gain rate (now 26 per cent). This distinction has been especially critical in the case of stock options, which up to 1945 were a favorite corporate means of rewarding executives by giving them the chance to buy stock below the market price. In 1945 the Supreme Court ruled, in effect, that the paper profits resulting from simply getting the stock after the exercise of an option were taxable as compensation, and the

Treasury amended its regulations accordingly. But protests against these changes led Congress in 1950 to restore to "restricted stock options" many of the pre-1945 tax advantages.

As a result, scores of the biggest U.S. corporations * have showered restricted stock options on their executives. The major restrictions are that the option price must be at least 85 per cent of the fair market value (and at least 95 per cent for a capital gain), and that the executive forfeits the tax benefits if he sells the stock within two years after the option is granted and in less than six months after he has exercised the option. But the restrictions are minor, considering such potential benefits as immediate tax relief, ability to defer taxes to future years, and frequently the privilege of getting company loans (up to 90 per cent of the option price in Loew's, Inc., for example) to finance stock purchases.

For the really enterprising executive, however, the so-called "management stock" plan is even more promising. To work this one, a corporation may create a special class of stock to be issued only to its executives and at a very small price, which will increase as the corporation's business increases. The virtues of such a plan were illustrated by Vacuum Foods Corp., which created a block of management shares for the benefit of Bing Crosby, who bought them for 10 cents a share. His radio programs promoting the company's orange-juice product were so successful that he is said to have been offered $7 a share for his stock. But such plans are rare. Most executives prefer to invest in a stock that already has a market value.

The biggest risk in stock plans for executives, of course, is the fact that they basically depend on a rising market. For executives who do not want to take this risk but want to spread the benefits of their high earning years over the future, there are many other plans —deferred profit sharing, deferred compensation, pensions, annuities, life insurance. The virtues, hazards, and variations of such

* Among them U.S. Steel, Standard Oil (N.J.), Celanese; Sears, Roebuck.

plans, which are detailed in the Washington-Rothschild book, cannot be considered here. But a few basic points are worth noting.

The difference between deferred compensation and a pension, for example, may not always be clear, but in general the former is current salary that is postponed, while a pension is something added to salary. Also the pension is accepted as a socially desirable form of old-age security, while deferred compensation may have to be justified purely as a business necessity. Thus Chrysler's deferred plan, which pays Chairman Keller $300,000 for five years and $75,000 a year for life thereafter, not only restricts him from competing with the company but requires him to act as consultant to Chrysler during his retirement.

The desire to postpone taxes on current income may be the prime reason for deferment plans, but these also may serve the executive as a savings plan or allow a company to retain an executive who asks for more salary than it can afford immediately. Under a "bad boy" contract, payments are forfeitable if the executive misbehaves. For example, the benefits of General Motors' profit-sharing Bonus Plan, under which a $50-million bonus in stock and cash was awarded in 1950 to 4,204 executives * in five-year installments, may be lost to an executive unless he "refrains from . . . acting or conducting himself in a manner inimical or in any way contrary to the best interests of General Motors."

The tax aspects of deferred plans are myriad and still largely undecided by the courts or the Treasury. Pension, annuity, and insurance plans are also hedged about with legal and tax qualifications. Company-purchased insurance and annuities are probably the safest means of making sure the executive will be taxed only as and when his pensions are paid.

The only way an executive can hope to escape income taxes entirely is to persuade his company to adopt a "tax-free" plan. Under

* Sixty-one officers and directors received about $7,500,000, or an average of nearly $123,000 each; lesser executives averaged $10,250.

the "tax-free income" plan, the company would promise to pay him whatever sum would give him, say, $50,000 after taxes, which might mean a salary of $104,000. Under the "tax-reimbursement" plan, the company would promise to repay the executive whatever his taxes on a stated salary came to. Under both plans, of course, the company would face the not inconsiderable risk of having to pay higher and higher taxes, unless the executive agreed to a ceiling. And even these plans may be spoiled by the tax collector.

Behind all the plans and problems considered by the authors there lurks one disturbing question: Is management getting too much for its services? During the thirties, employees and the public generally seemed to think so. Yet the authors' extensive analysis of federal and state laws shows that Congress and state legislatures have rarely interfered with management's rewards. The exceptions are found chiefly in industries involving government subsidy or control—shipping, railroads, airlines, utilities—and in wartime salary controls, which the authors have analyzed at length from unpublished Treasury data.

Indirectly, the SEC regulations requiring disclosure of executive-compensation data have undoubtedly checked many overgenerous impulses on the part of listed corporations. But in closely held companies the only protection against excessive rewards has been through the minority stockholder who has taken his complaints to court. Frequently, the complaints were justified.

It is not surprising that excessive compensation should be found more often in privately held companies. Where stockholders, executives, and directors are closely allied (if not identical), it is to their mutual advantage, tax-wise, to pay out as much of the earnings as possible in compensation, rather than in dividends. But how have the courts dealt with excessive payments? The authors present a study of fifty-three cases (forty-four prior to 1941, nine since) in which the issue of "reasonable" pay was raised. In twenty cases

the court decided that the reward was *not* "reasonable," but only once did the court refer to earnings, sales volume, capital, etc., in determining a proper reward. Here the court ruled that four executives who received $256,640 in four years—or from 80 to 102 per cent of the company's net income—should be allowed a little more than 60 per cent of this sum.

Moreover, in only three cases did the court consider the factors of reduced purchasing power and the rising impact of taxes on executive salaries. While there were many judicial opinions expressed as to the tests of "reasonableness"—*e.g.*, is the compensation out of line with that paid in the same industry—such tests did not appear decisive in moving the courts to rule that executives had received too much. The deciding fact in practically all such cases was the discovery that directors and executives had taken advantage of the stockholders by "self-dealing," *i.e.*, putting their own price tag on their services. But the discovery of self-dealing by itself does not mean that an executive's rewards will be held unreasonable, since in fifteen other cases the rewards were upheld despite self-dealing.

What the decisions might be in the case of publicly held medium-sized companies is not clear, for the compensation policies of such companies have seldom been attacked in the courts. Nevertheless the grounds for attack seem to be considerable. The authors cite former Harvard Professor John Calhoun Baker's survey of more than 14,000 textile companies, which showed that in the 1931–1937 period they paid out to executives and stockholders nearly $608 million more than their total "adjusted income" (net after all charges except payments to executives). Most of this "tremendous leakage" went to executives who took practically all the adjusted income in small companies. But even in companies with assets between $250,000 and $1 million, the executives received from 50 to 90 per cent of such income.

No such shares of corporate income have been taken by executives of large companies. But their pay policies have been attacked

perhaps even more strenuously—and far more dramatically—than those of small companies. The first major attack was launched against Bethlehem Steel in 1931 and since then large corporations in a dozen industries have been haled into court to justify their salary practices. The authors provide a partial list of defendants that reads like a blue-chip docket: Republic Steel, General Motors, Remington Rand, National Cash Register, Curtiss-Wright, U.S. Rubber, Union Carbide, Colgate-Palmolive-Peet, West Virginia Pulp & Paper, American Tobacco, Liggett & Myers, R. J. Reynolds, Certain-Teed, Celanese, Warner Bros., Loew's, Twentieth Century–Fox, National City Bank.

Generally the complaining stockholder has aimed his charges at the same chinks found in the closely held companies: self-dealing and excessive payments. The details the authors present on twelve of these big suits indicate that many of the corporations and their executives and directors may have been guilty—even though the courts did not so hold. Some defendants chose to settle without admitting their liability, and sometimes paid heavily; the settlement in the General Motors case in 1936, which involved two munificent management trusts, totaled $4,500,000, probably the largest on record. Yet the record also shows that the plaintiffs on the whole had great difficulty proving their charges of "unreasonable" compensation. They also had almost no success in getting the courts to reduce executive rewards. However, their suits occasionally seemed to move a company—Bethlehem Steel, for instance—to step down the amounts even though not legally compelled to do so.

Indeed the courts, hesitating to pass judgment on corporate practices, have continually refused to declare that executives are overpaid. The law's task thus remains that of guarding against fraud or overreaching, and seeing that the directors decide management's rewards openly and fairly. Ultimately, however, the task of preventing improper corporate practices comes down to the problem of corporate control: Who really decides the practices?

The authors see this as a three-cornered problem. There is, first, the bargaining problem between the executives and those individuals—large stockholders, bankers, key directors, etc.—with whom they "clear" corporate policies. Next there is the problem of negotiations between minority and majority stockholders. Finally, there may be conflicts between minority stockholders and management. A 1941 study by Judge Washington indicated that corporations that are not controlled by financiers and large family stockholders tend to reward management more richly than companies so controlled. And he concludes, significantly, that "the small investor may be most helpless [against excessive compensation] where there is an absence of concentration of stock ownership in powerful hands."

Nevertheless, minority stockholders have by their suits improved corporate practices, for they have not only educated directors to their responsibilities but have given corporate lawyers the evidence with which to caution clients on executive compensation. The authors believe that responsible lawyers ("Wall Street lawyers included") would agree with the late Chief Justice Stone when he said: "There is little to suggest that the Bar has yet recognized that it must bear some burden of responsibility for these evils (of huge bonuses)." But in defense of their profession they conclude: "Yet the lawyer knows that the receipt of a high salary by an executive is not in itself a breech of fiduciary duty. He knows, too, that management's desire for rewards commensurate with effort will not be satisfied by reminding management of an 'economic law'—or even a judge-made law—to the effect that profits belong to the stockholders. In this situation it is unfair to ask the lawyer to take the burden of passing upon the reasonableness of a proposed compensation payment. It is entirely fair, however, to ask him to insist on the observance of standards of good faith and arm's length bargaining. . . ."

The lawyer authors of *Compensating the Corporate Executive* have not said the last word on the subject. But in any event their book is likely to be an authority for a long time to come.

FIFTEEN

How Executives Get Jobs

THE TWO MOST REMARKABLE FACTS about American executives and their jobs are these:

1. Practically every executive can be persuaded sooner or later to leave his company, no matter how high his rank or how well satisfied he may be in his work.

2. Top executives are, as one job counselor puts it, "just as stupid about selling themselves as a youngster trying for his first job."

There is abundant evidence to support these assertions. The "availability" of executives has repeatedly been verified by management consultants who, on behalf of their clients, carry on stealthy man-hunts that may take months and cost $15,000 or more per executive hired. In some companies, consultants find the picking difficult: for example, they have found it nearly impossible to lift a manager from J. C. Penney and Sears, Roebuck. But that is exceptional. Much more typical is the experience of Thorndike Deland of New York, leading recruitment expert in the merchandising field, who says that 75 to 80 per cent of the men he places are already employed at the time.

Executives today, in fact, are more than ever likely to be looking for new jobs. On the one hand, expansion and decentralization programs have opened up positions that offer more money, more responsibility, and a brighter future to restless managers. And on the other hand, reorganizations and sudden shifts in policy may dump executives in wholesale lots. In the last few years, for instance, Dan River Mills has dropped a dozen or so top managers.

But executives themselves are most responsible for the rising turn-

over in management ranks. A survey released last spring by the consultant firm of Booz, Allen & Hamilton reported that 422 job-seeking managers gave twenty-eight different reasons for moving. The four most common explanations: (1) desire for a bigger, more responsible job; (2) desire for greater future opportunity; (3) desire for more income; (4) disagreement over management policies—the favorite reason of resigning presidents.

Among other reasons there is the desire to escape from the pressures developed by clashing personalities, in or out of the company circle. Thus one executive said that his wife had got into a fight with the executive vice president's wife and life "had been hell ever since." But often the "reasons" are only alibis to cover up the fact that the executive has been given his notice. Only one executive out of six in the Booz, Allen survey admitted to being laid off or fired. A manager may say, for instance, that he wants to change because of the climate ("My wife can't stand that Texas heat") or because of his children ("We'd like to locate in a spot where there is a good school system").

Whatever their reasons, nearly all executives anxious to change jobs can expect to find the process a lonely, miserable experience. Indeed, finding a new job is about the most difficult, embarrassing, and patience-exhausting venture an executive can undertake. This might appear illogical, since the continuing shortage of managers has sent hundreds of companies scouting for talent. The employers press their search not only through consultants and friends in other companies, but through employment agencies, college alumni and trade associations, newspapers and trade journals. Want ads may offer salaries as high as $100,000 a year. Theoretically, supply and demand should meet in happy balance. But because very few executives know how to go about selling themselves into a new position, most are likely to spend dreary months—perhaps over a year—trying to land a new post.

Broadly speaking, job-seeking executives fall into three groups,

and in each the problems are essentially different. There are, first, those men at the top levels of business whose abilities are so widely recognized that they can simply resign and wait for other companies to bid for them. For instance, the day after W. L. Keady, who later became president of Pabco Products Inc., resigned his $100,000-a-year job as president of U.S. Gypsum Co. in 1949, he had five top jobs offered to him. At this high level, executives are generally placed by directors and financial experts, such as Sidney Weinberg of Goldman, Sachs, who, for example, found Lucius Clay for Continental Can. Yet even on this level job getting may be exasperating work. For, regardless of his abilities, the candidate still has to sell himself as a personality to directors and also to incumbent executives, who will naturally resent his moving in over them. And he has to be sure to preserve his executive stature in the eyes of his potential subordinates. He must sustain the impression that the company is seeking his services, though the reverse may actually be the case. All in all, the shifting of well-known top-level executives is one of the most delicate operations in management.

The second group of job-seeking executives includes those whose reputation is relatively slight outside their companies or their industries. If competitors know they are good men, they are likely to be approached directly or by man-hunters, but many of the ablest managers in this group will take the initiative. Usually they are careful not to let their own companies know they are looking around. The wisdom of this secretiveness has been questioned by some placement experts who point out that (1) it inhibits the executive from advertising his availability, and (2) puts him in a dangerous position if word of his search gets back to his top management. On the other hand, if a restive manager shows his hand, his superiors probably will resent it, and may write him off as a turncoat who is of no further use to the company.

Finally there is that group of job seekers that have been forced out of a company's management. They may actually have been

fired, though this blunt word is practically never applied to the "resignation" of an unwanted executive. They include some of the most competent managers in industry, notably that fraternity of able executives who in recent years have left Montgomery Ward and promptly landed excellent jobs for themselves. However, in scores of cases the loss of a top-level position has increased the difficulty of getting another, even though the cause of the resignation—the collapse of a market, for instance, or the cost-cutting whim of a director—may have been totally beyond the displaced executive's control.

Within these three groups the placement specialist finds some special varieties. One bothersome variety are "floaters" or "job hoppers"—men seemingly incapable of holding a job for more than a short time. Some man-hunters call them "two-year boys," because it generally takes top management about two years to catch on to their weaknesses. Such men are often extremely articulate and full of ideas that may persuade a president to hire them on the spot.

The Man-Hunters' Dilemma

As most job-seeking executives know, or soon discover, the best jobs in big companies are now commonly filled by management consultants who conduct intensive man-hunts for their clients. This can be a lucrative business for the consultants, since their fee, collected from the employer, may run between 15 and 20 per cent of the executive's first-year base salary. At the same time, it is a troublesome, risky business that many consultants would like to get out of.

Their dilemma is this: On the one hand, searching for outstanding executives is a valuable service they can offer their clients, and it can be a good business-getter. If a company asks a consultant to look for a man, the consultant usually insists on first studying the organization's needs, and once inside the company he can easily find other problems for his firm to work on. The other side of the dilemma is that consultants obviously cannot raid their clients' staffs, and as their business expands the area of good hunting inevitably shrinks. Also, by luring a man out

But the ideas are rarely practical, and the details of organized management soon bore the floater. To some extent, he is a product of the philosophy, once widely advocated, that a man should get experience in many different jobs in order to develop the broad judgment needed in top-management positions. With the increase in specialization among executives, however, this philosophy has faded, and companies are inclined to turn down a man whose record shows a succession of short-term jobs. He may be tagged as "emotionally unstable" or as unfit for "team" operation.

Another special variety is known as the "stunter." This type likes to work out elaborate stratagems to attract top management's attention. One technique that has been frequently spotted by a Chicago industrial psychologist goes something like this: The stunter (likely to be a floater as well) invites a group of his business friends to lunch, making sure to include several from other companies and industries. In the conversation he casually outlines the kind of job he has always wished for and the industry in which he would like to

---

of a company, the consultant risks losing that company as a future client. Furthermore, man-hunting consultants can be accused of playing both sides of the fence—for example, recommending new jobs to be created in a client company and then getting paid for filling them.

The merits of running a recruiting service are so debatable that big man-hunters like Booz, Allen & Hamilton try hard to soft-pedal their success at it. Man-hunting billings may, in fact, account for 25 per cent or more of their business. Nevertheless, most consultants envy the one large firm, McKinsey & Co., which, having much less to lose, has begun to get out of man-hunting. McKinsey has not announced this formally, but in the last two years it has generally referred man-seeking clients to executive recruiters, such as Sidney Boyden, Ward Howell (an ex-McKinsey man-hunter), and others specializing in this work. McKinsey will charge a client for giving a candidate found by others a final going-over, but now believes that the finding of new executives should be taken on by management.

exhibit his talents. His particular project, advanced as a kind of executive's dream, may lie far afield from the business lines of his guests. But at times thereafter he will remind them of his ideas in the hope that some such project as he has described will come up, and that he will be remembered as "the man who has always wanted to do that very thing."

Not many executives, however, make a stunt out of their job search. Indeed, their general ignorance of job-getting techniques is apparent in the first step most of them take. As soon as a manager decides to move—or is requested to—he usually will resort at once to his friends and any others he thinks capable of discreetly passing the word that he is thinking of changing his job. He may simply plant this remark alone, or, if his situation is urgent, ask his friends to let him know "if they hear of anything." And it may be some time before he realizes how niggardly a job source his own social grapevine is.

An executive's friends, in fact, may be one of the poorest avenues toward a new job since they ordinarily have only a vague idea of his qualifications or actual accomplishments as a manager. Friends, of course, can be helpful in introducing him to others, but their eagerness, unsupported by facts about his abilities, may get him into embarrassing situations. When the employer talks to the candidate and discovers he is not all he has been touted to be, the results are unhappy not only for the candidate but for the friend as well. Probably because they realize this, friends tend to forget an executive who is looking for a job, or at best remember him only periodically.

Sooner or later, therefore, most job-seeking executives begin an active search by themselves. In recent years, thousands have started by advancing on management-consultant firms that specialize in man hunting. Some consultants, like Rogers, Slade & Hill in New York, owe their success and reputation primarily to their man-finding skill, and among large firms, Booz, Allen & Hamilton, with offices in eight cities, is reputed to conduct the most extensive man-

hunt operation in industry. Even less well-known firms will receive from two or three to a dozen or more letters or phone calls a day from executives "looking for a change." Some firms have accumulated large files of potential candidates. George Fry & Associates Inc. in Chicago, for instance, has records on some 15,000 executive careers.

But the job-seeking executive is apt to find the management consultant no more fruitful a source than his own friends. One reason is that man-hunting is a side line for management consultants, who get paid by companies for finding men with special qualifications, and do not, like employment agencies, earn their fees from applicants whom they place. Man-hunting consultants, to be sure, make all the use they can of their files. At Booz, Allen & Hamilton, for example, the data about job-seeking executives are carefully transferred to cards according to industry, job, salary, etc., and when a client asks for a particular kind of executive the cards are quickly searched for possible candidates. If the search turns up a man who looks good, the consultant will begin checking his references, his subordinates, business contacts, and general record. And if these look good, the consultant may put the candidate through a battery of psychological tests before presenting him to the client.

Nevertheless, it is the rare executive in the files who gets picked as the candidate. As Booz, Allen's Edward J. Burnell says, "Many people let us know that they are available. Frequently they have either been passed by or are at the top of their companies and don't know where to go from there. The chances are one out of 500 that we'll need that particular guy immediately." Other consultants estimate that fewer than 1 per cent of the men who approach them are eventually placed in clients' firms. In short, one of the surest ways for an executive to be overlooked as a candidate is to get buried in a consultant's file. (For a discussion of the management consultant's own dilemma in hunting men, see pages 252–253.)

There are some man-finding firms, however, that may give the

executive more consideration than do the management consultants. Most job-seeking merchandising managers, for instance, register with Thorndike Deland of New York, whose firm since 1926 has accumulated records on over 200,000 executives looking for jobs in a field where turnover is fast. Similarly, more than 120,000 executives have consulted with John L. Handy, who operates a recruiting service in a swank seventeen-room suite on Park Avenue. Though both Deland and Handy are paid by client companies, they spend time advising job seekers, since—unlike the consultants—their sole business is finding good men. Handy, in fact, has set up a "Career Planning Institute" to guide men over thirty earning more than $10,000 a year.

There are also a few employment-agency experts who specialize in placing executives. In Manhattan, for instance, Ann Hoff of Maude Lennox Personnel Service has won recognition among employers and executives for her tact and judgment in filling important positions. Her reputation is largely due to her years in running a placement service for the Association of Consulting Management Engineers. The ordinary employment agency, however, is generally the last resort of desperate jobless managers.

An eager executive on the prowl may register with a number of placement specialists, but if he's smart he will also try a lot of other methods. As consultant George Fry says, "There isn't any one key you can hit and know that that is going to do it. You have to hit a number of keys." One key that may hit the jackpot for an executive is to begin putting himself unobtrusively into circulation.

Once he has learned not to rely on simply dropping the word to his friends, an executive may go to bank officers, talk over industrial situations, and obliquely indicate that he is considering a change. He may get himself invited to business luncheons, and may make a point of attending trade-association meetings and gatherings of the American Management Association and similar bodies. He may, like the stunter, invite a bunch of his business acquaintances for

cocktails and discuss practically everything except his job status, trusting that those present will catch on.

If these methods prove barren, the job seeker may try something bolder. If he is the dignified sort, he may ask his lawyer or an advertising agency to write on his behalf to clients who "might be able to use his services." Or he may, as a few executives have done, even hire a public-relations expert to tout him to prospective employers. One Middle Western banker several years ago engaged a public-relations man to ballyhoo his participation in community committees, hospital campaigns, and the like. Apparently this worked, for he soon moved from a small bank to the vice presidency of a major metropolitan bank. Moreover, he still retains a public-relations man, as a kind of insurance.

Such methods, of course, take time. According to one job counselor, a top executive should allow twelve months to find a presidency, and six months for a vice presidency.

Usually a job-seeking executive will undertake his own sales campaign, most likely by direct mail ("the shotgun approach"). He may try to do all the work himself, or engage one of the many small firms that make a business of it. Some of these are little more than one-room mimeograph factories that type out an executive's career history and help him compose a covering letter. The price may be as low as $3 per hundred résumés. Others also offer job counseling and will prepare lists of companies in the field where the executive is seeking a job. One firm charges $10 for a covering letter, $35 to $50 for a prepared résumé, $100 for a list of 100 prospects, and for a total of $200 will also mail the material.

The commercial brand of résumé may be a vast improvement over the homemade product. A hundred broadcast résumés may fetch twenty-five or thirty replies and result in four or five interviews. Getting an interview is the primary purpose of a résumé, but even placement specialists can't predict what kind of résumé will actually interest the employer.

Almost everyone in the business, however, has his own idea of what constitutes a good résumé. One man-hunting consultant, who is also a psychologist, offers four rules for executives' résumés: (1) make them short; (2) avoid obvious claims for big savings (if, for example, the candidate boasts that "I saved $100,000 for the last company I worked for," any smart employer will know that a lot of other people helped him); (3) always include a photograph of the candidate; (4) always include information about his wife and family. (A good many companies now insist on interviewing the wives of executive candidates.)

In some cases—and especially for top-level jobs—it may be wiser to omit the résumé altogether, and to concentrate on exciting the employer's interest with a short, well-written letter. Yet even this may elicit no response if the job seeker's strength lies in intangibles —tact and charm in personal negotiations, for instance—which cannot be put on paper. One placement man admits that "the résumé approach is actually a pretty sorry business, but it's about the only sales gimmick an executive really has to work with." To give it a new twist, one advertising executive has recited his résumé onto both sides of a twelve-inch record, which he delivers to recruiters and companies.

Some executives who have vainly tried to peddle their résumés later had more success in calling on employers cold. But whatever means succeed in securing an interview, once inside the door the candidate still has to sell himself personally. Unfortunately, this is a feat that many executives seem incapable of performing.

The ineptness of the job-seeking executive may show up in any number of ways after he gets in to see a prospective employer. He may wear an unpressed suit or a wild, hand-painted tie. Or he may spend 90 per cent of the interview describing his past or his family troubles. One executive talked at length to the employer about the deplorable competitive practices of "X" company. The employer finally asked him if he knew what company he was talking to, and

the candidate said yes, he understood it was "Y" company. The employer then broke the news that he was interviewing "X" company, whose practices he had been deploring.

Few executives realize how critically important their physical appearance may be to an employer. Placement expert Ann Hoff observes that employers now seem to be looking for an ideal "Hollywood type." One company rejected a candidate because he had "teeth that were too square" and others have been disqualified because their ears stuck out, or they drank and smoked too heavily during an interview. Racial and religious requirements also are often frankly stipulated by employers.

The executive, on the other hand, may be too choosy about the employer's offer. A manager may turn down a good job because he dislikes the president's taste in jokes, or is offended by the smallness of the office to be allotted to him. He may refuse to give up a newly built home or the pleasures of a local sailing club. He may reject offers from companies that sell only to the government or that provide slim expense accounts. And often he is likely to entertain the advances of a man-hunter for months, and then turn down a firm offer as soon as he has used it to extract a raise from his boss.

The most stupid blunder made by job-seeking executives is to falsify their records. One recruiter estimates that three-fourths of them exaggerate their salaries by 20 per cent. More curious is their tendency to claim an unearned college degree. One firm in Chicago says that up to 10 per cent of the executives who apply there lie about their school backgrounds. In one case the successful vice president of a large railroad passed himself off for years as a graduate of Massachusetts Institute of Technology, which he had never attended. His pose was eventually revealed by an M.I.T. official who met him at an alumni banquet. In a more typical case, a successful sales manager claiming an A.B. degree was discovered to have attended college less than three months. This was the only flaw in an excellent record, but the consultant advised his client not to hire the

man, since his falsification indicated a failure of judgment that might be repeated on the job.

In addition to his own boners, the job-seeking manager must be prepared to endure those the employer may commit. There is the risk of psychological tests, for instance. If such tests are tailored to the company's needs and competently analyzed, the candidate who fails to measure up may actually be saved from a future "resignation." But it is also true that a good executive may be rejected merely because an industrial psychologist has glibly interpreted his behavior. Thus when one man, questioned about his family during an interview, extolled the virtues of his father, the psychologist advised his client that the candidate was subject to a "father complex" and so was not desirable executive timber. Even if a candidate gets by the psychologists, he runs the risk of failing the final test, which is applied by the employer's prejudices and whims.

While top management's criteria in hiring a new executive may not always be, as one consultant put it, "strictly nebulous," still a candidate's record is not often the deciding factor. One placement man estimates that employers' judgments are based 20 per cent on the record and 80 per cent on personality. And the personality of a candidate for a top job will have to stand the peculiar scrutiny of all the executives in top management. This process of "feeling out" the candidate may take months, and if the candidate tries to hasten it he may find himself rapidly out in the cold.

Moreover, the executive who insists on finding the job that suits him exactly may also be tripped up. One man passed up opportunities for eighteen months before accepting the vice presidency of a Middle Western company that offered him the kind of job in the kind of industry and community he wanted. And to make sure the job satisfied him, he worked for several months before deciding to move his family on from the east coast. Shortly thereafter he was shocked to discover that he was to be dropped because the directors had decided that his department was a good place to cut costs. If

he had taken the trouble to look into the company's past history, he would have found that this was all too likely to happen. He had overlooked it, however, in his intense desire to find the ideal environment.

Though job-seeking executives obviously need help, there are not many places where they can get personal, noncommercialized attention. But in some cities there are men who make a hobby of helping them. Such a man is Guy E. Reed, executive vice president of Chicago's Harris Trust & Savings Co. Reed spends part of every working day acting as an amateur counselor to dislocated and unhappy managers, and he has become so well known on the management job-seeking circuit that each week five to ten executives write or telephone him. Two-thirds of these men are looking for jobs and the rest want advice on some problems they face in their present work.

Scores of employers also know that Reed is likely to run across the man they are looking for. Carrier Corp.'s President Cloud Wampler, for instance, phoned Reed from Syracuse asking if he could think of a man who might be hired as the company's general attorney. Wampler was considering a number of promising candidates, but even so he thought he'd check with Reed. Reed suggested a thirty-seven-year-old Chicago lawyer who had not thought of moving before he was approached, but who got the job because he had exactly the qualifications that Wampler wanted.

Reed is suspicious of executives who are job hunting because they want to escape the politics in their companies; often he makes such men see it is they, not their colleagues, who have been causing the friction. He estimates that about half of these men can be given a new slant on themselves and can go right back to their old jobs. Reed advises every job seeker to forget that he is looking for a job: "The less an applicant thinks of the dollar sign, the more effective he will be."

A somewhat different technique for helping executives sell themselves is offered by the free man-marketing clinic started by Sidney Edlund in 1935. Edlund, then president of Life Savers Inc., was giving so much time to counseling jobless executives that he decided to start regular meetings where he could advise more men at once. Since then, one night a week a score or more of job-seeking managers have met with Edlund or one of his assistants to discuss their problems in self-marketing. Some 60,000 have passed through this clinic.

Only about a third of those who attend are out of a job, the others come to gather tips on preparing themselves for a move they are considering. A few managers in the group present their case histories and the rest criticize their résumés, interviewing techniques, analysis of job requirements, etc. Usually an executive discovers he hasn't "dug out" the qualities he actually possesses for a particular job, and hasn't specified the ways he solved problems that would convince employers he knows how to think.

Edlund, who has become a consultant on audio-visual sales methods, warns executives that they have to do the hard work of developing a convincing résumé, since only they know the specific details in their experience that will distinguish them for employers. Though he advises against lengthy communications, he cites the case of one manager who sent out a twenty-one-page covering letter with a twenty-one-page résumé to 250 top executives, one of whom offered him a $25,000 job.

Following Edlund's example, the Advertising Club of New York has run a free "job-finding forum" since 1940. Others have organized man-marketing clinics for special groups: for instance, Carl Boll, a New York insurance broker, counsels only graduates of Harvard Business School. Older executives have been helped by the cooperative system of the Forty Plus Clubs, some of whose members are assigned to call on employers and present the records of other members who are qualified for available jobs. Unlike the free man-

marketing clinics, however, the Forty Plus Clubs expect members to pay entrance fees, weekly dues, and "voluntary severance payments." (New York members generally consider 2 per cent of the annual salary of the new job a fair "parting" contribution.)

But the work of such groups makes only a small dent in the major problem of placing executives. The problem is essentially to bring together two big searching operations—the continuous search by companies, man-hunters, agencies, and placement specialists for managers, and the equally continuous search by managers for jobs. Theoretically, all that is needed is a big central clearinghouse.

However, there is evidence that even on a small scale a clearinghouse for executive talent would not accomplish any spectacular results. The American Management Association, for instance, distributes on the twenty-eighth of each month a list of 100 or more "Executive Openings," which are supplied by the man-seekers among its 14,000 members. Each month 1,500 copies go out, and some 1,200 résumés come back to A.M.A., which forwards most of them to its job-offering members. Yet this job exchange places only about a dozen managers a month.

It seems clear that no one but the executive can solve his job-getting problem. If he is jobless, there will be no easy solution. But for the manager who has a job and yearns to shift, the best solution is for him to do his work so well that the man-hunters will come after him.

RETIREMENT

Aging executives and aging workers have faced management with a lot of knotty questions. Should old executives be compelled to retire? Should their companies prepare them for it? What is a fair executive pension? Top managements disagree sharply over such questions, but some corporations have started to face the touchy problems of aging management. At the same time, executives are trying to answer the big question about older workers: Should management enforce automatic retirement at sixty-five? Or at any fixed age? Unions, bureaucrats, doctors, and some executives now vehemently say no. The final chapters of this book sort out the facts and fictions of these controversies, report the practical experience of many companies, and describe some new approaches to industry's retirement problems.

SIXTEEN

How to Retire Executives

By the time he is sixty-five—if not before—an American executive usually has a solid, built-in aversion to thinking about his old age. And his aversion has been reinforced in recent years by an extraordinary mass of dismal facts and figures that show how rapidly the U.S. population is aging. In view of what science has done to prolong life expectancy, he might easily conclude that he is destined to live out a long, dull retirement in a nation swarming with very old people.

Such a conclusion would be quite wrong, for there is one statistic on the aging population that is seldom cited. It is the arresting fact that while more Americans than ever are living to sixty-five, the average span of life *after* sixty-five is not much greater than it was fifty years ago. At sixty-five, a man's life expectancy is about thirteen years, or only a year or so more than his grandfather's—if grandfather was lucky enough to live that long.*

What may easily be more disturbing to aging executives is the prospect of sudden death after retirement. Reports about executives who have died a few months after leaving their jobs are certainly plentiful, and have created a widespread conviction that executives die much sooner than other men. But here again statistics do not support the legend. Insurance companies, in fact, know that executives and others who can afford to buy annuities actually live longer than those who simply buy insurance, which is why annuity

* For women, life expectancy at sixty-five is about fifteen years.

rates are higher. Moreover, among those covered by group annuity plans, those holding large annuities (usually executives) live just as long as those with small annuities.

It is not the fear of early death under the stress of inactivity that makes the thought of retirement most repugnant to the average elderly manager. What really repels him is the prospect of being forced to quit his job because his company's pension policy arbitrarily calls for retirement at a certain age, usually sixty-five.

Until very recently, all the arguments over compulsory retirement have been focused on the aging worker. Sociologists, doctors, psychologists, economists, union leaders, social workers, bureaucrats, and politicians—and many managements—have condemned compulsory retirement as wasteful, antisocial, inhuman, and unnecessary. Their views are heated and involve issues that do not concern executives—notably the unions' insistence on the rule of seniority.

Yet, basically, much of the debate over compulsory retirement applies to managers as well as workers. For example, those who oppose this policy invariably point out that chronological age is no true measure of a man's capabilities. Conversely, many managements defend compulsory retirement, largely on three grounds: that it gets rid of inefficient personnel, opens up channels of promotion, and avoids discrimination among those retirable.

Now all these arguments, both pro and con, can be supported by some sort of evidence. All of them, however, tend to confuse the issue of retirement in an industrial economy. The case against compulsory retirement, for instance, is frequently based on (1) a questionable premise and (2) a false assumption:

The premise is that a company's pensioning policies should be framed primarily for the individual and society, rather than for the company's benefit. A sounder thesis would seem to be that what is good for the corporation is good for the individual and society.

The false assumption is that all companies strictly enforce their retirement policies—which they very seldom do.

The curious thing is that the executive has been almost totally ignored in all these arguments. In the recent flood of literature, surveys, and statistics on old age, the implication is that elderly executives present no great problem, perhaps because they are so small a group and so often receive what seem to be generous pensions. Actually, it is not difficult to show that the aging manager is essentially a more significant problem, economically and psychologically, than the aging worker.

Economically, the high cost of senescent executives is painfully clear to those managements that have learned that one aging manager can lose more for the corporation than scores of inefficient old employees. Failure to retire old managers not only can stifle initiative, deaden morale, and cut efficiency all down the line; it can sink management in a bog of old ideas and overconservative decisions. The bog may develop so gradually that managers easily mistake it for "tradition." It is, moreover, as comfortable as any old habit. To be sure, an exceptional manager can drag himself out of it. While working on some familiar problems, one executive suddenly saw he was making the same decisions he had made twenty years before, and decided right then to retire himself. But he was truly exceptional.

Psychologically, the decision to retire is a more complex problem for managers than for workers. At top levels, management finds itself in the difficult position of deciding its *own* retirement. And on lower levels, the very process of becoming a manager changes the attitude toward retiring. The higher he rises, the sharper his realization that failure to rise further is in effect the start of his retirement from the top ranks. But the more his responsibility increases, the more a manager cherishes his status and tends to identify his success with the corporation's. He readily comes to regard himself as indispensable. Here, too, the awakening may be sudden. Thus one owner-manager, who had built his income up to $150,000 by working day and night, was about to put in another evening when he realized

that if he worked, that evening with his family would be lost forever. He has cut out practically all night work ever since—and his income has steadily increased.

Too often the manager also considers himself immortal—or at least one to whom a policy of compulsory retirement could not conceivably apply. This attitude, widely revered as part of the old tradition of "dying in the saddle," is now supported by the discovery that with advancing age intellectual abilities do not deteriorate so rapidly as physical abilities—*e.g.*, tests show that after the age of twenty the I.Q. falls off on the average only about three points per decade. Judgment, of course, should increase with age. But it can harden into "sound judgment," which avoids the risks and changes that profits are made of. In short, those who die in the saddle may well kill the horse.

Paradoxically, management has been very slow to face these facts. And those that have begun to face them are of many minds. Some managements stoutly maintain that compulsory retirement is the only way to clear out executive deadwood and bring new ideas to top management. One executive thinks that Montgomery Ward's autocratic chairman, Sewell Avery, is "a one-man argument for compulsory retirement." Other executives argue that the indiscriminate shelving of management brains is a serious breach of their duty to the corporation. A few managements, convinced that aging workers and managers are too radically different to be covered by the same retirement policy, favor making retirement voluntary for employees, compulsory for executives. Yet one company—Wm. Wrigley Jr. Co.—in 1951 installed a progressive retirement plan whose operation, illustrated by the chart on page 273, seems to accomplish an effective compromise among the interests of the corporation, its managers, and its employees.

Management has yet to make up its mind about a basic question: How much responsibility should the corporation assume toward its

aging managers and employees? Is a decent pension enough, or should the company prepare them for the inevitable shock of separation? Many companies are now counseling old employees about their futures; few, however, are trying it with managers. But there are signs that managements are at least beginning to look their old age in the face. So far, the fact they have recognized most openly is that managers' pensions should be bigger.

While it is true that only a few top executives work primarily for money, as they approach retirement their desire for a good pension steadily rises until it may easily dominate their thoughts about stepping down. This desire, of course, has been sharpened tremendously by inflation, by rising income taxes, which have shrunk pensions as well as the ability to save, and by falling interest rates, which have cut the return on past savings. In addition, the pension plans of many companies still put an absolute ceiling on the retirement income any executive can expect.

Until recently such pension ceilings were relatively low, and were adopted for three main reasons: (1) management assumed that well-paid top executives could provide for additional independent retirement income; (2) maximum limits would cut the cost of the pension plan; and (3) such limits would avoid unfavorable public and employee criticism. Though the last two reasons may still be valid, many companies, recognizing what taxes and inflation have done to retirement incomes, have raised the limits on pensions or removed them entirely. Thus, du Pont in 1950 lifted its pension ceiling from $15,000 to $30,000 (which was about 6 per cent of President Crawford H. Greenewalt's salary and bonus for that year), while Best Foods, Consolidated Edison of New York, Irving Trust, National Biscuit, and many others have eliminated arbitrary ceilings entirely. A few companies, like Republic Steel, have pension ceilings as high as $50,000.

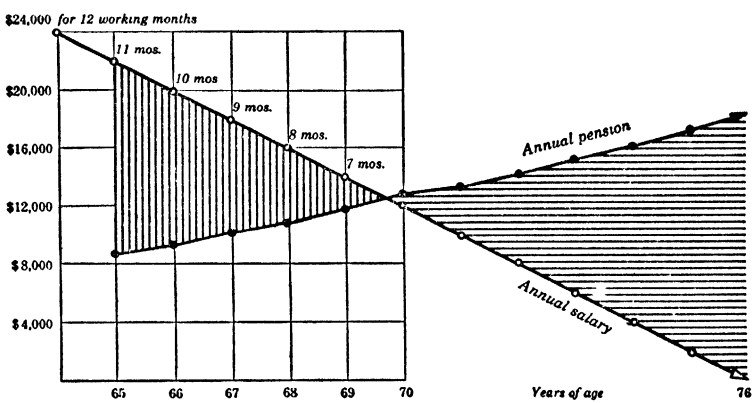
A strong case can be made for not putting any limits on executive pensions. One firm of pension experts, Towers, Perrin, Forster

& Crosby, Inc., cites the experience of U.S. Steel, which started its plan in 1911, setting the compulsory-retirement age at seventy and the pension ceiling at $100 a month. The age limit was generally ignored, but when the pension ceiling later proved unpalatable to retiring top-management men, a special list of additional pensions was set up by the corporation's New York office, and eventually several of the subsidiaries were paying a third pension to some of these men. Nevertheless, a small army of slow, old executives continued to paralyze top management. Finally, in 1931, when the corporation's income was not enough to pay its preferred dividend, it dropped the pension limit. The corporation then felt free to enforce compulsory retirement and thereby shook off a lot of executive dead weight.

Under a pension plan based on average earnings an executive may be relatively worse off than lower-paid employees since his pay rises much more rapidly during his last years. This discrimination occurs even under a liberal pension plan, which, including social-security payments, will provide for each year of service a retirement income equal to 2 per cent of average annual pay. Under such a plan, a retiring worker making $3,600 who has averaged $2,400 a year for thirty years would receive $1,440, or 40 per cent of his final pay. But for a retiring $75,000-a-year executive who had averaged $25,000, the pension would come to $15,000, or only 20 per cent of his last salary. Some companies therefore have adopted supplementary formulas, such as paying those who earn over $3,600 an additional 20 per cent of average earnings for the last five or ten years. Often, however, companies have been getting around the problem of low executive pensions in other ways, notably with stock options, annuities, and deferred compensation.

Deferred-pay plans have become exceedingly popular, and some are generous indeed. Most celebrated is Chrysler's, which contracted to pay Chairman K. T. Keller $300,000 a year until his retirement in 1956, and thereafter, in addition to an annual pension of $25,200,

the corporation agreed to pay him $75,000 for life. (An extraordinary clause further stipulated that if the stockholders "fail" to elect him to the board, or the directors "fail" to elect him chairman, the corporation must pay him damages of $300,000 a year until 1956, after which he will still receive his pension and $75,000 a year for life.) A more usual form of contract is that under which the Goodyear Tire & Rubber Co. agreed to pay its chairman, P. W. Litchfield, $75,000 annually for ten years after he retired. Almost all such contracts, however, stipulate that the executive to be retired must work



How to Wean Aging Executives from Their Jobs

This chart shows Wm. Wrigley Jr. Co's two-way retirement system. In this example, the executive's salary has remained at $24,000 for the last three years, and he will have thirty years' service at sixty-five. Before then, he must decide how much longer he wants to work. He can (1) retire at sixty-five with an $8,700 annual pension; or (2), if the retirement committee approves, stay on and take an extra month's leave without pay for each extra year, *i.e.*, one month the first year, two months the second, etc. If he stays on, his pension credit will increase, and his leaves are supposed to wean him psychologically from his job. By sixty-nine, his annual pension credit would be $11,919, and social-security payments could assure a total income of $13,359—close to the $14,000 then earned for seven months' work.

How Old Executives

What do executives do if they don't die in the saddle? One former vice president for over seven years rode almost daily into New York on his old morning train just to talk with his old commuting cronies; and then, after killing most of the day gaping at newsreels, he joined the crowd on the five-twenty for the ride back to the suburbs. Apparently he refused to accept what executives are apt to find so harrowing when they first retire—the necessity to adjust to "a woman's world." Another retired vice president confessed that the primary reason he came in town to a small office each day was "to get out from under the carpet sweeper."

In Florida and California, ex-managers are burying the frustration of inactivity in various ways. In a plush club at Miami Beach a wealthy retired engineer from Detroit was asked why he didn't leave the gaming tables and organize a company to develop some of the mechanical devices he had thought up in his spare time. "Aw," he said, "I couldn't make any money out of them."

Another reaction to retirement is evident in that growing band of ex-managers who have hitched their Cadillacs to fancy trailers and gone down to park on Florida's strands. Often all they seek is anonymity. One retired executive who had joined a trailer colony near Fort Myers didn't want his new-found friends—carpenters, mechanics, and clerks—to know what his job had been, since "it would spoil everything" if they knew he was getting a big pension.

Some ex-managers last longer than others, but very often, once the tension of the job is broken while overeating continues, arteriosclerosis soon catches the idle executive with a stroke. Those who stay alive have no great secret. Their best advice seems to be to get interested in something new, and preferably before retirement.

Fade Away

Executives in their forties and fifties are planting trees on their farms, and plan to sell Christmas trees or nursery stock when they're retired. Many ex-managers are taking government jobs; a retired Sears, Roebuck executive, for example, became the purchasing agent for the state of Illinois. Others are running welfare campaigns, serving on hospital boards, doing anything that gives them the sense of being useful. There is Harold R. Hall, who retired as manager of Procter & Gamble's Drug Products Division in 1949 to become a research professor at Harvard's Business School, where he has written a book * on the problems of executive retirement.

And there are now several management-consultant firms manned by retired executives. One of these firms, Management Counselors, Inc., of New York, was organized by Alfred L. Hart, an energetic ex-distributor for General Electric who decided to retire at fifty-four after building up a nice business on Long Island. Hart first tried raising purebred cattle on his farm, but found it too hard to hire hands during the war. Still full of business drive, he finally interested a few other retired executives in pooling their services as management consultants. The firm now includes fifty former top-management men offering "2,000 years of experience" in practically everything from comptrollership, production, and sales to "governmental relations."

Some executives do better than others in retirement, and those who have been wise enough not to devote themselves totally to business seem to do best of all.

* *Some Observations on Executive Retirement*, published 1953 by Division of Research, Harvard Graduate School of Business Administration.

for the company until retirement, then serve as a consultant, and not work for a competitor. These and other provisions serve to monopolize the executive's services, making the payments to the executive under such contracts tax deductible for the corporation, and at the same time reduce the tax burden on active executives by spreading it over the years of retirement.

Whether tax bureaus and courts will continue to let corporations and executives enjoy these tax benefits is still a big question. But in any case, bigger pensions for management apparently will be provided wherever top management considers the company able to stand the cost. Large companies generally seem ready to stand it. It has been estimated that for big manufacturing companies executive salaries represent from 4 to 6 per cent of total payroll, and pension costs for managers might amount to less than 1 per cent of payroll. The size of executive pensions varies widely, regardless of profits. But not many companies are yet willing to pay what some management consultants consider a fair retirement income, *i.e.*, 50 per cent of *final* salary. Even Socony-Vacuum's generous maximum, for instance, has limited pensions to 50 per cent of the average salary for the last five years.

Many companies, particularly small ones and those with high labor costs, have usually sidestepped the obstacle of increasing executive pensions. They do so in one of three ways: they simply retire the executive on a modest pension (or no pension at all); they keep him in his job; or they retire him and then immediately rehire him.

The choice among these three policies is seldom a simple matter of corporate economics. A company may be so young that it has not yet developed an upper stratum of old managers. Top management might then think a small pension ample enough, or might, like United Parcel Service's management, prefer to let its executives solve their own retirement problems without a pension. When one

United Parcel engineer recently retired, he moved to Florida and built himself a house. He is now growing fruit, and has arranged with the Army (he was an officer in the last war) to lecture to military and civilian executives on economic problems of preparedness. These activities, plus savings, support him and his wife.

A more common corporate decision is to retain an aging executive's services. If he wields considerable power within top management, the company's policy will certainly reflect his views, and the more important he considers himself, the less likely will the company be to apply compulsory retirement. Even though the directors, who are probably his close friends, may think he is no longer an effective manager, they will naturally hesitate to tell him he should "take it easy" on a pension that may amount to a small fraction of his present salary. It is much less embarrassing to let him go on managing; indeed it may be impossible for them to do otherwise, if he has financial control of the company.

Where a manager's abilities really are essential to the company—a difficult thing to prove—he is sometimes pensioned off and rehired at a salary that will bring his pension up to what he was making before retirement. This may be done even though company policy calls officially for retirement at sixty-five, and management generally justifies such a move on the ground that it is "for the good of the company." This may, of course, be true, and certainly was during the war when an arbitrary retirement policy would have crippled many companies. Since then, some companies that have reverted to compulsory retirements have begun to question the policy.

Take New York's National City Bank. The bank, which had made a few exceptions during the war, went back to a strict policy of compulsory retirement at sixty-five, because the officers believed strongly in keeping the channels of promotion open at the top. As a result the bank has lost some good men. When one of its foreign-service officers was retired, he immediately joined an import-export firm and thereby deprived the bank of invaluable connections and politi-

cal friendships he had developed over the years. Losses of this kind stirred National City's pension-trust vice president, G. Warfield Hobbs III, to dig into the whole subject of retirement, and he became chairman of the National Committee on the Aging, which the National Social Welfare Assembly sponsored in 1950. While this committee has not taken any position on the subject of compulsory retirement, Hobbs's conclusions are definite.

One of his convictions is that a company should have two retirement policies, one for employees, another for management. During full employment, employees should be allowed to work as long as they are able and willing, while managers should submit to arbitrary retirement at sixty-five. At the same time, Hobbs holds, a company ought to try to retain the experience and knowledge of superior executives who wish to continue by rehiring them as consultants. In doing so the company should transfer the executive's former title and responsibilities to his successor. Hobbs would like to see National City—and other corporations—form advisory committees composed of rehired executives to work on special corporate problems.

Hobbs realizes that this retiring-rehiring system would impose on management the very task it aims to avoid with a compulsory retirement plan, *i.e.*, deciding who should be rehired and who should not. But he claims that making tough decisions is what management is there for, and that after evaluating one another for years, the executives know whose talents and services should be retained for the benefit of the company. "These decisions will be made easier," he says, "by adequate pensions for all executives in the company—and by adequate I mean about 50 per cent of final salary." The danger of favoritism can be avoided, in his opinion, by having a retirement committee administer the process under explicit rules, the two main rules being (1) that the corporation actually needs the executive's services, and (2) that he is able and willing to perform them.

The virtues of a retirement board have been even more explicitly

expounded by Theodore G. Klumpp, who has also been active on the Committee on the Aging while serving as president of a Sterling Drug subsidiary, Winthrop-Stearns, Inc. Dr. Klumpp thinks the selection techniques now used in hiring should be applied to retiring. The retirement board should include a line executive, a staff executive from the personnel department and another from the medical department. Such a board could not only recommend who should be retired at sixty-five, but also periodically assess executives from the age of fifty-five on. Its decisions would be flexible—strict if business were slow and the company overstaffed, lenient if the company needed more managers than it had. And by reporting to the directors, the board could relieve the president of the embarrassment of discriminating among his colleagues.

To many executives, who have seen how top management usually handles the problem of retiring managers, these proposals may sound naïve, for they apparently assume an impersonal attitude that rarely exists within management's ranks. The corporation may be heartless, but management certainly is not, if only because individually each executive may expect special treatment when his own time is officially up. Consideration for the retirable manager still dominates the policies of almost all companies, and it is deep-rooted in the tradition of the owner-manager who retired on his own terms and only when *he* was ready.

The prime problem, of course, is that few executives ever seem willing to stop. Most managements apparently still think this proprietary attitude of executives toward their jobs is far too delicate a matter for the corporation to handle. Perhaps the president will broach the subject of retirement lightly to an aging assistant during a round of golf. But as one man put it, "Top management generally considers the subject as unmentionable as bereavement."

Those managements that have begun to accept responsibility for preparing their managers for stepping down are going gently. In

some cases the preparation is so indirect that the executives are probably not aware of it. One approach is through the company house organ, many of which now regularly carry stories about retired employees. While most of these feature an old favorite, the happy, carefree hobbyist, there are also reports on new moneymaking enterprises that retired managers, as well as employees, have undertaken.

Typical is the story in the *Harvester World* about the credit manager who, nine years before he retired from International Harvester, bought ten acres in Florida, planted citrus trees, and has grossed as much as $11,500 a year. The assumption is that executives in the company will read such stories "over the employee's shoulder" and be stirred to think and plan ahead for their own retirement. Another indirect approach is to induce executives to participate in company hobby shows, which may suggest the virtues of an outside interest.

Personnel men, however, know that it takes much more than mild suggestion to make executives face the question of retirement. A few companies have therefore set up informal counseling programs to "prepare" older managers, but such counseling rarely involves more than advising the executive what his pension will come to and perhaps asking him to decide some beneficiary details.

At Standard Oil (N.J.), whose subsidiary, Esso Standard, has developed an ambitious counseling program for employees, counselor R. L. B. Roessle has usually found it hard at first to interest executives in his services. "I have to get my head in the door," he says, "and ask for five minutes of the executive's time. Once I get that far, I'm lucky to get out in less than an hour." His experience would seem to prove that, with a little urging, executives may not find it painful to discuss retirement.

There are other ways of preparing aging managers for retirement. One is to give them long vacations or leaves of absence and to give their successors the full responsibility of their jobs. When senior officers at Bankers Trust in New York reach sixty, their vacations

are lengthened to two months. A more direct way is to hold the aging executive responsible for training his successors. At Procter & Gamble, top-management men are expected to spend their last two or three years on such training. Top management doesn't consider this "counseling"; indeed, manufacturing Vice President J. Gibson Pleasants scorns the idea that it is possible to coach an executive about his retirement. But P. & G.'s older managers who are developing men to take over their jobs obviously are going to start thinking about the future.

So far only one company has announced a system that promises to solve most retirement difficulties. This is the plan conceived in 1950 by Lewis E. Harland, personnel director of Wm. Wrigley Jr. Co., and its evolution by Wrigley's management is instructive. Up to 1947 most of Wrigley's employees over sixty-five had chosen to go on working under the company's voluntary-retirement plan, since pensions were inadequate, and it was possible for them to continue working and still draw pensions. So in October, 1947, Wrigley liberalized its pension plan to give those retiring, for each year of service, 1½ per cent of their average last three years' pay, up to $10,000. The company also formed a retirement committee, composed of Chairman Philip K. Wrigley, President James C. Cox, and Harland, to decide who was qualified to continue working after sixty-five.

But despite larger pensions, half the employees reaching sixty-five still wanted to stay on, and 90 per cent of their requests were granted, including those of several aging executives. As the contact man between the retirement committee and employees reaching retirement age, Harland found about 50 per cent of them unhappy and reticent, because they felt they couldn't afford to retire and because "they didn't know what the hell to do with themselves if they did."

Harland calls his idea for solving these problems a "brain storm." While studying the pension plans of Wrigley's foreign subsidiaries, he discovered that British insurance companies paid "actuarially equivalent" pensions—*i.e.*, they spread the total value of the pension

at age sixty-five over the expected life span after retirement.* Thus if a man were entitled to an annual $10,000 pension at sixty-five but did not retire until he was seventy, he would then receive $14,800 a year, since his life expectancy would have dropped from thirteen to ten years.

Harland saw that such a system of actuarially equivalent pensions would encourage older people, executives especially, to stay on and thus retard the promotions of younger men. To avoid this, he suggested to Mr. Wrigley that the pension system be joined to a system of progressively longer leaves of absence. Employees who wanted to keep on working after sixty-five could do so, but for each extra year worked they would be required to take an extra month off without pay, in addition to vacations. If an executive stayed until he reached sixty-eight, for example, he would be paid for nine months in his last year—his working time plus regular vacation.

It is the combination of these two systems that provides the essential virtues of the plan that Aetna Life Insurance Co. agreed to underwrite. Under the plan, installed by Wrigley Co. in January, 1951, employees are sent detailed information on their pension status six months before they reach sixty-five, and those who then decide to continue must state how much longer they want to work. They know that the longer they work, the larger their final pension and the less their annual pay. But at one point—somewhere between their sixty-eighth and sixty-ninth years in most cases—their pensions would be more than they would earn for eight months' work.

To lessen the discrimination against those earning over $10,000, Wrigley has assumed the risk of granting pension credits of 1 per cent per year's service on the last three year's average earnings over $10,000. An executive with thirty years' service and averaging $24,000 in his last three years, therefore, could go on working for

* U.S. pension plans usually grant a fixed annual sum with payments starting at sixty-five, and if a worker retires later than this, he gets no more, even though it has been paid for. His loss is a gain for his company or its trust fund.

about five years before his rising pension exceeded his shrinking salary.

The chief virtues of the plan, according to Mr. Wrigley, are that it puts those working after sixty-five through a gradual "weaning process," which is financial as well as psychological. While they are getting used to a lower annual income, they are also getting used to being off the job and thinking about what they want to do in retirement. The plan "will also give the company a chance to find out if the understudies are able to carry on during the leaves of absence of the older employees." In addition, Harland thinks the fact that their monthly rate of pay is not reduced is psychologically beneficial, since it avoids the implication that after sixty-five they are worth less to the company.

The first results of the plan have looked good to the retirement committee. One executive earning more than $15,000 seemed completely lost during his first month, but the next year, during his two months off, he reported he was beginning to enjoy life as a Florida beachcomber. Of the first employees and executives trying progressive retirement, none asked to continue working for more than four years.

The oldest executives, however, have not taken to the plan so easily. During his first month's leave James C. Cox, board chairman, came into his office once a week to clean up his desk and throw things into his wastebasket, and to attend to his only outside interest as chairman of a Chicago bank. After over fifty years with Wrigley, he was still "not thinking about complete retirement." At the same time, he was ready to stop when his salary dropped below his pension.

His long-time colleague, seventy-two-year-old William H. Stanley, sounded far more bitter about the plan, whose tapering-off process he compared to "the good meal you give the condemned before his execution." He vigorously believed that "the pleasantest way for men to die is to work until they drop," and that "those

who created the wealth of this country worked for success—not money—for being able to tell a man to go to hell."

Nevertheless, the new plan made him face retirement. In 1950 he started taking law courses at DePaul University—which is what he really wanted to do back in 1914 before he started pulling in the Wrigley harness. And he resigned in 1952 as vice president and secretary to devote his full time to his studies.

The Wrigley plan will undoubtedly reveal its weaknesses in time. Some managements expect that the expense of letting old managers and employees continue on a part-time basis may prove exorbitant. Harland admits that younger men may grow impatient waiting for their seniors to let go. But at least the plan answers the question of the corporation's responsibility to its aging personnel. It wakes men up to the fact that *they* are responsible for their own futures.

Insurance men usually find that to young executives the idea of compulsory retirement is much less repugnant than it is to their elders. Moreover, pension plans now often include provisions for early retirement at fifty-five or sixty, with the company in some cases agreeing to pay those retiring early an additional amount equal to social-security benefits until they reach sixty-five and are eligible to claim such benefits from the government. Many employees are retiring early under such plans; the average retirement age for all Socony-Vacuum's employees over the last twenty-odd years, is sixty-three.

Nevertheless, very few aging executives, at Socony-Vacuum or anywhere else, have taken to the idea of quitting before sixty-five. Their interest in such a move, in fact, declines precipitously as they approach the dread deadline of stepping down at sixty-five. And even if executive pensions should go up as precipitously, it seems likely to be a long, long time before management's big problem turns out to be premature retirement.

SEVENTEEN

When Should Workers Retire?

IN THE LAST FEW YEARS the well-advertised and popular belief that old age is a time for leisure has suffered an extraordinary rebuttal. The latest opinion, proclaimed by government officials, union leaders, economists, sociologists, doctors, psychologists, politicians —and quite a few corporation executives—is that the aging employee should go on working as long as he can and wants to. Moreover, those promoting this view hold that U.S. managements who have adopted pension plans calling for compulsory retirement have sinned mightily against the workers, the economy, and society.

Some of the sternest preaching has come from management itself. Consider, for example, the charges delivered in 1950 by the late Dr. John J. Wittmer, then vice president of New York's Consolidated Edison Co.: "Industry has been grossly guilty of banishing into retirement men still capable of worthwhile economic productivity. We have discarded skill and energy which could very well be utilized in the national economy, and we have crushed the morale and will-to-live of a large portion of our population. Society generally has forced our aged citizens into the degrading position of parasites on society."

Now the campaign against compulsory retirement runs counter to some widespread American beliefs about work and age. Up to thirty years ago or so, American workers tended to pride themselves on their ability to die with their boots on. But since then

banks, insurance companies, and other providers of security have been harping on the virtues of a comfortable retirement in "the sunset years," purchasable with savings or annuities. More basic, however, is the general conviction that youth is essential for success while age leads inevitably to the scrap heap. These ideas are incompatible with the proposition that aging employees should keep working. Moreover, this proposition runs counter to one of the original purposes of the federal government's Old-Age and Survivors Insurance program.

Two decades ago the OASI program was expected to induce the aged out of the labor market and thus provide jobs for unemployed younger workers. It specifically discouraged those over sixty-five from working by stipulating that if they earned $15 a month or more they would not be eligible for government pensions. Since then Congress has voted to raise this limit to $75, but the pensions have also been increased. To be sure, the pensions are still meager; the average monthly benefit recently amounted to only about $50 for a retired worker, and $80 for a retired couple over sixty-five. But social security for the aged, now almost universally approved, still powerfully supports the idea that older workers should be helped to retire.

How, then, does it happen that so many are rejecting that idea? There is no one simple answer, for interest in keeping the aging at work has been growing since the thirties, when unemployed older workers became a big relief problem. Concern for the aging subsided somewhat during the war, when employment of the aged increased by about 1 million, but in 1948–1949, when unions opened their big drive for pensions, the problems of retirement attracted national attention. While most union leaders opposed compulsory retirement, they generally accepted contracts containing this principle in order to get pensions. After Korea, as the labor market tightened, unions stepped up their opposition, and many managements began to change their minds.

In August, 1950, the Federal Security Agency called a National Conference on Aging, and for three days some 800 delegates from labor, industry, government, and civic and religious groups threshed over an enormous variety of problems, issues, and recommendations. But there was no doubt as to what the government was shooting at hardest. In his opening speech President Truman urged the conference to "find ways whereby more older persons can continue to work at their regular jobs if they want to." And the attack on compulsory retirement was carried on by FSA chief Oscar R. Ewing, union leaders, and most of the other delegates. Those who were in favor of arbitrary retirement, mostly industry representatives, started the hottest debates, and the controversy continues unabated.

Much of the recent interest in retirement policies is perfectly genuine. The shortage of skilled workers alone would be enough to interest many managements in keeping on aging employees. But the fact is that a great deal of the uproar over retirement is just propaganda.

A lot of the propaganda may be good. Some of it is spread unconsciously. Many of those who plead for keeping the older worker at work—doctors, for example—are honestly concerned over the physical and psychological problems of aging. Others, including managements, are convinced that retaining old employees is good for industrial and public relations, and therefore good for business.

But some of the propaganda about the older worker has been definitely misleading. (See pages 292–293.) In the Labor Department's *Employment Security Review* of April, 1951, for instance, Louis H. Ravin, chief of the Employment Counseling Branch, opened an article with these words: "WARNING! ! What follows is propaganda! However, it is honest propaganda, based on fact, and serving no selfish ends. This is frankly an appeal to put older persons to work, instead of putting them out to pasture." Many of the things Ravin had to say about industrial and social prejudice against hiring older

workers were documented by a factual survey of employment practices in five cities. But he also repeated some of the arguments that so many others, in and out of government, have circulated as gospel on retirement.

Similarly, FSA's attacks on compulsory retirement have a peculiar sound in view of the fact that the social-security program, which the FSA administers, is primarily responsible for spreading the practice of automatic retirement at sixty-five. By making federal pensions payable at that age, the government led thousands of managements to adopt the same arbitrary starting time for industrial pensions. To be consistent, FSA should be urging Congress to eliminate the age requirement for government pensions and thus induce management, in turn, to make retirement voluntary for aging workers. Obviously, however, government OASI pensions at sixty-five have become so generally and politically acceptable that Congress is not likely to change the rules. It is also obvious that if industry can be persuaded to keep older workers at work there will be fewer claiming government pensions, which would help FSA persuade Congress to vote increases in the scale of OASI benefits.

A Statistical Primer

Here are some basic facts about the older men and women in the U.S. population:

►Between 1900 and 1950 the *number* of people sixty-five and over quadrupled to a total of more than 12 million.

►In the same period the *proportion* of the population included in this aged group doubled (to more than 8 per cent).

►The proportion of men sixty-five and over who are actually in the labor force has fallen from 63 per cent in 1900 to about 42 per cent (1950 total: 2,400,000).

►The proportion of women in the same group has remained close to 8 per cent for over fifty years (1950 total: 500,000).

►Of the 9,400,000 aged people not in the working force in 1950, three

The retirement issue is not only political; it is a complex of social, psychological, and economic problems. And it is not surprising that sharp disagreement over retirement policies exists not only between management and labor but within the ranks of each. Most executives still seem to think that the older worker should be retired when he is eligible for a pension. Most unions, on the other hand, are now strongly in favor of letting the worker himself decide when he shall stop working. But the fact is that recent agitation for postponing retirement has both unions and managements over a barrel.

For its part, management has commonly adopted pension plans as a means of improving efficiency, primarily by removing older, slower workers, by speeding up promotions, and by reducing turnover. Pensions also are considered good for public and industrial relations. And setting a fixed retirement age makes a plan easier to administer and its costs easier to calculate. Many managements believe that without a fixed age limit, pension plans will lose most of these advantages.

For their part, unions have sought and secured pensions as a means of improving the worker's security, and many are now de-

---

on the Aged

million were physically disabled and 5,800,000 were unavailable for work for other reasons, *e.g.*, keeping house, caring for sick spouse, unwilling to work or try a different job, skills obsolete, etc.

▶The 1950 net reserve of aged workers was estimated at some 600,000, or just about 1 per cent of the total labor force.

▶Women, who have a longer life expectancy than men, are fast becoming the nation's major old-age problem: in 1950 women sixty-five and over outnumbered the old men by nearly a million, and by 1975 they are expected to total over 12 million, which is nearly twice their present total. By then they will outnumber aged men almost three to two.

nouncing compulsory retirement as "undemocratic." But union leaders know that if older workers are not encouraged to retire, younger workers may vehemently resent that fact whenever jobs are scarce, as they did in the thirties. Moreover, if retirements are not fixed by age but are left to the judgment of a joint labor-management committee, then the basic union rule that all workers should be treated equally is automatically violated.

Though managements and unions have just begun to face their respective dilemmas, the variety of proposed, experimental, and actual solutions is remarkable. At one extreme is the position taken by some unions and a few managements that all workers should work as long as they want to; at the other is the insistence of some managements that all employees without exception retire at a fixed age. Between these positions is an extraordinary assortment of compromises.

Some large companies try hard to stick by compulsory retirement. One, for example, is U.S. Rubber, whose original pension plan, started in 1917, allowed male workers to retire voluntarily after sixty-five and women after sixty. But in the late thirties management had trouble getting older employees to step down, and to avoid embarrassing arguments over who should go, the company set the maximum working age at sixty-five. As a result, each year about 200 out of 60,000 employees are automatically retired. There always are a few exceptions. In one recent year, for example, sixty-two employees over sixty-five, whose skills are "irreplaceable," were at work, with management's approval, and another thirty-five were allowed to stay on during that year to qualify for increased social-security benefits. But most of U.S. Rubber's management holds that an age limit is the best device for making both company and workers accept the idea of retirement.

Quite a different conclusion resulted from Eastman Kodak's experience. Back in 1912 George Eastman set up a "wage-dividend" plan in the belief that it would encourage employees to accumulate

their own pension funds. But even the oldest workers generally spent their bonuses. Finally, in 1928 Kodak shifted to an insured plan that called for "normal retirement" at sixty-five. Those who choose to stay on receive no further pension credits. Thereafter their cases are periodically reviewed by management. Those unable to handle their regular jobs are urged to retire, but the informal reviewing committee tries not to be "arbitrary" and treats each case "on an individual basis." In recent years, the result is that out of 54,000 employees there have been more than 300 over sixty-five, and more than thirty past seventy.

Similar systems of "selective" retirement have been adopted by many companies. Thus, at Taylor Instrument Companies, full pensions become payable at the "normal" retirement age of sixty-five. Employees who reach that age can continue on a year-to-year basis, if management agrees, and 90 per cent have done so. However, pension payments begin arbitrarily at seventy, and in 1950 management decided that this was "the logical point" at which everybody, including executives, should step down. Today only one of Taylor's 2,500 employees (one whose successor has not yet been found) is now working beyond the deadline.

Much more flexible is the system at Cleveland Twist Drill Co., whose management considers it "patently ridiculous to connect a man's working life with his chronological age." Up to 1941, when the company installed its pension plan, employees could work until they dropped; now everyone over fifty is entitled to a complete medical checkup by an outside doctor, whose findings are known only to him and the employee. When a worker reaches sixty, the personnel manager talks to him about his financial affairs. Four years later and annually thereafter, he is interviewed about his personal affairs and advised against working until sickness forces him into a miserable retirement. (The medical exams have induced several to retire early.) The worker gets his pension at sixty-five whether he goes or stays, and recently there were forty-two men

Fiction and Fact

Sweeping statements about old age and retirement have become so common that experts as well as laymen are now likely to accept them as true. Here four of the most repeated and most questionable contentions are analyzed:

Claim: The aging worker is needed not only for defense production but for raising national income and standard of living.

Correction: Among those who have made this claim is Harvard's eminent economist, Sumner Slichter, who estimated that some 1,500,000 able workers have been forced to retire, and that, if allowed to work, they could increase the national product by $5 billion. However, an analysis by a Federal Security Agency statistician, Jacob Fisher, showed that by the end of 1951 about 23 per cent of those sixty-five and over (nearly 3 million) were in the working force, and if employment in this group were to return to wartime peaks (52 per cent of the men, 10 per cent of the women), the net addition might total only 600,000 workers. Fisher put the aged-labor reserve in proper perspective by noting that it was equal to about 1 per cent of the labor force. Even assuming that all these men and women were as productive as the average worker—which they would not be—the equivalent of their maximum output could be achieved by an increase of less than a half-hour in the work week.

Claim: Aging workers want to stay on the job.

Correction: This contention is at best a half truth. While some old employees do want to continue, many others do not. At Socony-Vacuum Oil Co., which has a generous pension plan calling for compulsory retirement at sixty-five, the average retirement age has been sixty-three. On the other hand, surveys of retired workers receiving government OASI pensions show that their average retirement age has been sixty-nine, and one sampling indicated that only about 5 per cent voluntarily left their jobs. But in one OASI survey of 22,000 such beneficiaries, nearly three-fourths said they were unable to work. Moreover, nearly half of the men and two-thirds of the women who were willing to work wanted only part-time or occasional jobs.

about Aging Workers

Claim: Company pension plans are chiefly responsible for forcing older workers to retire.

Correction: This statement is not even a half truth. In 1952, 16,000 industrial pension plans covered some 10 million workers, or approximately a sixth of the regular labor force. Only about 400,000 workers have retired under these plans. On the other hand, 86 per cent of all paid workers are covered by government pension plans (OASI, Railroad Retirement, federal, state, and local-government employee programs). Moreover, private pension plans do not invariably call for compulsory retirement. A survey (by Edwin Shields Hewitt & Associates) of 496 pension plans of large and small companies showed that only about half stipulated retirement at a fixed age.

Claim: The economy cannot support in idleness the growing number of aged.

Correction: The short answer to this claim is that no one knows what the economy will be able to support. Statistics are cited on both sides of the argument. Most often quoted is the fact that the aged population is increasing. Even more pertinent—but less often cited—is the fact that whereas in 1900 nearly two out of three men over sixty-five were in the labor force, now only two out of five are —and the economy seems to be doing all right.

It is estimated that by 1975 the cost of $100-a-month pensions for all those sixty-five and over might run over $25 billion a year. But it can be argued that even if the pension load proves to be much bigger than this, the economy still might well be able to bear it. The U.S. birth rate has declined over the years, and in relation to the working group (ages eighteen to sixty-four), the proportional growth of the aged population has been more than offset by the proportional shrinkage of the young dependents. At the same time, both per capita income and productivity have gone up despite (1) a drastically shortened work week, and (2) a rising proportion of older people who retire. In view of these long-term trends there is no very convincing evidence that support of the aged will be an insuperable economic problem.

getting both pay and pensions. Management reserves the right to retire anyone at fifty who can't do a full job, but whenever possible transfers him to lighter work or cuts his hours. Any dispute over forced retirement would go to a four-man committee (the executive vice president and three divisional vice presidents), but the committee has yet to receive a case.

In large unionized companies, however, selective retirement quickly raises the issue of how and by whom the selecting is to be done. In the auto industry for instance, managements of the Big Three and the UAW–CIO have agreed to an age system somewhat like Taylor Instrument's, *i.e.*, "normal" retirement at sixty-five, "automatic" at sixty-eight. These companies and others have labor-management committees that arbitrate disputed cases of disability or "forced" retirement before sixty-eight. So far, these jointly administered systems seem to be working out.

Most union leaders, however, now urgently want to get all age limits removed, and assert that "ability, not age" should be the criterion for retirement. At the same time, many social workers and doctors believe that retirement problems will not be solved until criteria are found for measuring the aging processes. There is a vast difference between these two views.

Those who recommend an intensive search for aging criteria are asking for something that may never be found. Dr. Anthony J. Lanza, director of New York University–Bellevue Medical Center's Institute of Industrial Medicine, asserts: "Anyone who says he can tell whether a man will live another year is kidding himself. Maybe we will never be able to tell how good a man is physically." Even if physical tests are found there would still be intangible factors to measure like stamina, for example, or the will to live, which can offset even the most serious physical ailments. Psychological tests for aging workers are remote. Dr. George Bennett, president of the Psychological Corp., largest U.S. seller and scorer

of personnel tests, points out that whereas young job seekers can be readily tested for basic abilities, older workers have developed more complex abilities that are much harder to test and that differ in every company.

Compared to these uncertainties, union demands for criteria based on ability to work sound deceptively practical. Actually, unions are little interested in measuring either ability or aging. Their concern is to secure more liberal definitions of disability, and to substitute these for age criteria.

This is in effect what the railroad unions achieved in 1946 when the Railroad Retirement Act was amended to include "occupational" as well as "total and permanent" disability. The railroads and the unions were required to collaborate with the Retirement Board in setting up standards of mental and physical disability for every regular job in the industry, with the result that there are now scores of criteria covering nine categories of occupational disability. Conductors and brakemen, for example, may qualify for disability pensions on such grounds as "emotionalism, severe, repeated," and "defects of personality—progressive."

Disability retirements are already a serious problem for managements in other industries. Even in a company where retirement is compulsory at sixty-five, disability may account for 40 per cent or more of all retirements. And obviously, if disability standards are relaxed, the number of early retirements—and pension costs—will go up. Foreseeing this, the UAW-CIO has attempted to show management how to reduce such costs by a jointly administered (but company-financed) program of preventive medical care.

Preventive medicine may be one answer, but it still leaves a lot unsolved. One question is what to do with the aging worker who just can't do as much. So far, there appears to be little evidence that management thinks it necessary to try two of the techniques which some unions have proposed, *i.e.*, retraining the aging worker

and redesigning the job to make it easier for him. But for years companies have been trying to help older workers in various other ways.

Chrysler's Dodge Division, for example, used to have a light assembly department staffed with aging employees. But Chrysler recently let the department "wipe itself out," partly because most aging workers prefer to be reassigned to lighter jobs in their old departments.

Reassignment of the aging, in fact, seems to be a fairly common management practice. In one recent survey * by economist and social worker Elizabeth Breckinridge, about half the companies covered said they were following this policy. Some companies, like those in the Bell System, generally reassign without cutting the worker's pay; the majority, like Chrysler, cut his pay slightly or downgrade him completely. Though downgrading conflicts directly with union seniority, most unions, like the UAW–CIO at Chrysler, appear willing to overlook this in order to keep the worker on some job, especially when details are worked out by labor-management committees.

Another practice, found frequently among small companies, is to cut the aging employee's work day, work week, work month, or work year. Thus the tapering-off system at Wm. Wrigley Jr. Co. (see Chap. 16) requires all who work beyond their sixty-fifth birthday to take an extra month's leave without pay for each extra year worked.

Still another approach is to retire aging employees and then rehire them on a part-time or full-time basis. Though Marshall Field's in Chicago, for example, makes retirement compulsory at sixty-five, it annually asks hundreds of its retired workers to come back for a maximum of sixty working days. Only one out of ten usually accepts. Each year, however, a half dozen or so of Field's retired employees go to work full time for Field's competitor,

* *The Effective Use of Older Workers*, published by Wilcox & Follett.

Carson Pirie Scott & Co., which not only is against compulsory retirement but strongly favors hiring older people.

Scores of managements, like Carson Pirie, are now convinced that the best answer to the problems of aging is a counseling system that will help workers get ready for retirement. During a University of Chicago Round Table discussion, Carson Pirie's Virgil Martin stated, "Training for retiring under a flexible policy becomes as important an employment procedure as the training of a new employee at hiring." His views were seconded by Acme Steel's industrial-relations vice president, H. L. Bills, who described his company's program thus:

"We usually start talking to our employees whom we have reason to feel should give consideration to retiring about [two years] before they retire. I call this the 'three easy steps' in retiring. [The first step is taken by the foreman or superintendent whenever he finds that the worker is not doing the full job.] We hold three or four informal discussions with the employee, which may also involve talking with his family or his children. In other words, they as well have to be conditioned for the adjustment. I might say that our program on retirement also includes a very thorough explanation of the benefits the employee will receive from his retirement plan—arranging for his social-security payments, and so on. Then, in addition, we have a post-retirement program, which includes sending company publications, such as our house organ, *Acme News*, and other material to the pensioned employee. In addition, we call at the home of the employee periodically, never less than three times during a year. These visits are made by trained counselors."

Of these "three easy steps," the second—sending company publications—is so easy that almost every large company, with or without a retirement program, takes it. And the third step—visiting retired employees—is also fairly common, though usually company

nurses, not "trained counselors," do this, and only once a year.

The first step, which is counseling, may vary from helping the worker straighten out his personal affairs (perhaps with his family present, as Bills pointed out) to a mild form of psychotherapy in which the employee's fear of impending idleness may be gradually eased. A few big companies have undertaken formal programs. The system Esso Standard Oil started in its Bayonne, New Jersey, refinery, for instance, involves five "structured" (*i.e.*, planned and led) group discussions during which the worker is shown how to analyze and map out the activities he wants to "retire *to*." At the Prudential Insurance Co. of America, group counseling consists of a dozen or so wide-open discussions in which those retiring counsel each other, criticize the company's policies, and ask Prudential's professional counseling staff for help on financial, health, and psychological problems.

Prudential has found that its six major problems run the gamut of human needs: income, housing, companionship, health, and religious needs, plus the need of "doing something useful"—for pay, if possible. About two-thirds of those retiring say they want to go on working—*not*, however, for another company—but most of them soon get adjusted to retirement. Some of their criticisms of Prudential's policies have been minor ("Tell the president to stop sending out that farewell letter"), while other complaints (notably those about compulsory retirement and reduced insurance and disability benefits after retirement) involved policies that the company was not yet prepared to change. But Prudential is well sold on its counseling program.

Corporate solicitude for the aging, however, still seems wrong to many managements. Standard Oil (Ohio) expects older workers to take their retirement problems to their managers: a counseling staff would only become "a wailing wall." Even at Sears, Roebuck, where personnel problems receive constant front-office consideration, President F. B. McConnell deleted from a proposed employee

handbook all reference to retirement planning, saying this was none of the company's business. The closest Sears will come to counseling is to warn those retiring not to plunge their profit-sharing holdings into risky investments.*

There is also evidence that a good deal of retirement counseling may be wrong as far as the worker himself is concerned. A careful study by Special Surveys in Cleveland has cast doubt on some of management's most common assumptions about planning for retirement. Interviews with 483 men who had been retired for one to five years from six Cleveland companies showed, among many other things, that of those who had made *no* retirement plans, the proportion that seemed well adjusted (36 per cent) was nearly as great as it was for all those who *had* planned.

Other significant findings of this survey were that keeping busy does not guarantee contentment with retirement, and that having a hobby is a particularly unimportant factor in adjustment. Only 5 per cent of those most contented with retirement, for instance, spent most of their time on a hobby, and many spurned this word for their activities, protesting that "hobbies are only for children or sissies."

If management chooses to help employees prepare for retirement, it must accept the ironical fact that this will automatically complicate, and may nullify, much of what has been done to improve industrial relations. Indeed, the better a company's industrial relations, the tougher its retirement problems are apt to be. Companies that for years have granted extra benefits and used personnel techniques of all kinds to persuade workers to stay with them may well be reluctant to start a process to loosen the ties between company and employee long before retirement.

Nevertheless, judging from the shift in management thinking

* The size of such holdings is the main reason for this advice; a bookkeeper whose top earnings at Sears were $5,100 recently retired with a profit-sharing nest egg of $166,000 in stock and cash.

about retirement in the last few years, it seems likely that many large companies at least will eventually undertake a gradual-retirement program of some kind. Though this will complicate management's job, in the long run it may prove more efficient than compulsory retirement.

Arbitrary retirement does, of course, remove inefficient employees, but even in large companies the number of those retired for age is so small a fraction of the work force that net savings in operating efficiency may be much too small to measure. On the other hand, a gradual-retirement process that includes medical checkups, reassignment, and counseling may considerably improve the efficiency of workers who stay on, and at the same time reduce both pension and group-insurance costs.

A system of gradual retirement, however, is no more than a partial solution to the problems of aging workers. For one thing, few small companies can afford counseling. It has been suggested that the local community should assume responsibility for preparing employees for retirement. Perhaps so. But before that is likely to happen, management, employees, and labor leaders may once again have changed their respective minds about compulsory retirement. Conceivably more and more managements may prefer voluntary retirement systems, while a new generation of workers, lacking their fathers' drive to keep on working, may well prefer to retire early. And labor leaders may come to prefer compulsory retirement as government and industrial pensions grow larger.

There are, clearly, no pat answers to the complex retirement problems of aging workers. The only valid answers are those that the worker finds for himself.

Index

Aging workers, statistics on, 288, 289
"American Way" in house organs, 152–154
"Anomie," 17
Appraisal system, 29, 30
Aptitude index for salesmen, 60
Aptitude tests (*see* Psychological tests)
"Assistant-to" positions, 26
  technique of, 122, 123
  weaknesses of, 28
Assisting subordinates, 119
Authorities and responsibilities, distribution of, 120–122
Authority, fear of delegating, 117, 118

Bonuses, 240–242
"Brain storming" technique, 46
Budgets, impact of, 105
Business machines, installing too many, 169
"Business statesmanship," 94

Chief executive, successor to, 31
  (*See also* Executives)
Committees, labor-management, 9
  uses of, 26–28, 116, 117
Communication, 143–186
  gospel of, 178
Communication, reason for failures, 10
  use of foremen in, 10, 11, 184
  use of union in, 11, 12
  via house organ, 145–161
  (*See also* Overcommunication)
Company publications (*see* House organs)
Compulsory retirement, 268, 284–291
Conferences, problem-solving, 35, 39, 45, 46, 48
  vertical, 39, 45
Control, by centralized management, 103
  by charted results, 96
  of profit-sales ratio, 98
  of records, 162–176
  (*See also* Planning and Control)
Controllers, as presidents, 104
  status of, 103
"Controller's Dream," 103
Coordination, of control techniques, 96, 99
  slip, 118
Correspondence, cost of, 165, 166
"Counseling," 15
"Creative" mental processes, 47
"Criticism sandwich," 87
"Crown princes," 28, 123

Decentralized authority, 97, 101–103
(*See also* Planning and Control)
Decisions, making of, 48–51
Deferred-pay plans, 272
Delegating, failure in presidents, 71
fear of, 117, 118
Development of executives (*see* Executive development)
Directors, development of, 33
Disputes, routine for dealing with, 207

Emotional reeducation, 15–17
"Empire building," 93, 174
"Executive authority," concept of, 121
Executive compensation, bonuses, 240
business expenses, 239
central problem, 236
deferred, 244
excessive, 245
history of, 233
management stock, 243
management trusts, 247
percentage of corporate earnings, 234
profit-sharing, 239–242
"reasonable," 235
"self-dealing," 246
stock-bonus plans, 242
stock purchase and stock-option plans, 242
study of, 229–248
tax aspects of, 244
tax-free income plan, 245
what the executive expects, 237
written contract on, 238
Executive development, active methods, 25
appraisal system for, 29
choice of technique, 133
costs of, 19
Executive development, Harvard's technique for, 44
by "multiple management," 27
objections to, 19
passive methods, 25
by presidential action, 32
pressures for, 22
reaction to, 24
reasons for, 21
survey of, 1–53
switching problem, 19
use of "assistants to," 26, 122, 123
Executives, group, 120–122
how to retire, 265–284
job-seeking, 249–263
successors to, 31
traits of success and failure, 68

Face-to-face management, 26
Family management, 196
Fatigue in industry, 14
Files, dead, destruction of, 163–169
measures for assessing, 166, 167
retention schedules, 174, 175
rigid control of, 171, 172
uselessness of, 166, 167
Filing, costs of, 165, 166
federal requirements for, 164
"First-assistant" system, 119, 120
"Forced-choice" method, 30, 31, 64, 65
Forecasting with control techniques, 97
Foremen, as communication channels, 10, 11, 184
cooperation with union, 210
training programs for, 80–87
"Foresighting" technique, 37
Forty Plus Clubs, 262, 263
Free enterprise in house organs, 152, 153

Frustration, of "knowing too much," 178, 180
in problem solving, 47
Functional staff, 116

Grievance sessions, 207
Grievances, 199
Group executives, system of, 120–122

"Halo effect" in rating, 64
Harvard management courses, 3, 15, 16, 43, 44
Hawthorne experiments, 14, 15
"HOBSO" (How Our Business System Operates), 152
House organs, analysis of, 145–161
basic nature of, 148
business of, 150, 151
caliber of editors, 147
circulation figures of, 150
controversial stories in, 157-160
devices of, 149
grapevine news in, 156
prime function of, 161
surveys of, 147
union news in, 159, 160
use of local paper, 161
"Human engineering," 8
Human relations, requirement of, 3
skepticism of, vi

Incentive plan, 201–203, 211
(*See also* Profit sharing)
Industrial psychology, 57–73
(*See also* Psychological tests)
Industrial relations, basic adjustment in, 194
basic problem of, 4
case history of, 186–213
three rules for, 212, 213
Industrial-relations director, role of, 6
Industrial-relations policies, categories of, 4
Informal organization, 108, 113, 125
Information, withholding, from executives, 179–184
from workers, 184, 185
(*See also* Communication; Overcommunication)
Information system, structure of, 179, 180
"Insight," stages leading to, 47
Insurance salesmen, selection of, 60
Interviewing, "nondirective," 15
"Intuition," training of, 38, 49

J.I.T. (Job Instruction Training), 78–81
J.M.T. (Job Methods Training), 78, 80
Job getting, techniques of, 253–263
Job Instruction Training (J.I.T.), 78–81
Job Methods Training (J.M.T.), 78, 80
Job Relations Training Program (J.R.T.), 8, 78
Job rotation, 26
criticisms of, 29
Job satisfaction, lack of, 13, 14
Job seeking, blunders of, 258–260
clearinghouse for, 263
resumés used in, 257, 258
Jobs, how executives get, 249–263
J.R.T. (Job Relations Training), 8, 78

Labor-management committees, 9
Labor-management cooperation, 12, 201–213
Labor relations, case history of, 189–213

"Laddering up" conflicts, 119
Leadership, basic problem of, 29
Letter to employees, 7, 153, 298
"Line," definition of, 115, 116

Man-marketing clinic, 262
Management attitudes, problem of, 15, 16
Management authority, basis of, 13
Management consultants, choice of, 134–139
  investigation of, 136
  as man-hunters, 252
  for small companies, 131
  tests of, 138
"Management by exception," 104
Management methods, choice of, 127–141
Microfilming disadvantages of, 170
Monotony in industry, 14
"Multiple-management" technique, 27
  weakness of, 28

Nepotism, 20
New methods, choice of, 129–134

OASI program (government pensions), 286
Office files (*see* Files)
Officers, average age of, 21
Older workers, reassignment of, 296
  statistics on, 288, 289
Organization, "ten commandments" of, 114
Organization chart, fiction of, 108
  insider's, 113
Organization Planning (O.P.), 108–126
  costs of, 123
  formal versus informal, 125, 126
  principles of, 114
Overcommunication, 177–186
  safeguards against, 182–184

Paper work, "birth-control" techniques, 170–172
  calculated risks of, 173
  problems of, 162–176
  (*See also* Files)
Participation, labor-management, 12, 129, 187–213
Paternalism, 5, 6, 227
Pension plans, 270–284, 289–294
"Personality" tests (*see* Psychological tests)
Personnel officer, functions of, 7
Planning and Control (P & C), 91–107
  barriers to, 100, 105
  definition of, 95
  origin of, 96–99
  potential virtues of, 106
Presidents, letters of, 7, 153, 298
  selecting successors of, 32
  troubles of, 71
Problem solving, conferences in, 35, 39, 45, 46, 48
  frustration in, 47
  steps in, 37, 42
Profit sharing, amounts shared, 218, 219
  in collective bargaining, 214, 227
  definitions of, 216, 217
  economics of, 218, 219
  failures of, 221, 225
  made a legal necessity, 228
  pitfalls of, 214–228
  primary lesson of, 215
  statistics against, 225
  tied to pensions, 224
  union antagonism to, 223
  with unions, 227
  when no profits can be shared, 222

Profits, controlled ratio to sales, 98
Psychological testing, 57–73
Psychological tests, abuses of, 73
for aptitudes, 57
battery of, 65
Chapple Interaction Chronograph, 72
for executives, 65–72
Group Rorschach, 66
"ink blot," 58, 65, 66, 70
Klein system, 61
number available, 59
Oral Performance, 72
"personality," 57
program of, 64, 65
projective techniques, 58, 62, 63, 65–69
"Psychodrama" technique, 72
Rorschach, 58, 65, 66, 70
for salesclerks, 72
for salesmen, 60, 61
Thematic Apperception Test (T.A.T.), 62–63, 67–70
Thurstone closure, 59
Psychologists, as consultants, 70, 71
scarcity of, 58

Rate-setting methods, 203
Rating, techniques for, 29–31, 64, 65 (*See also* Psychological tests)
Ratio of executives to employees, 22, 23
Reading, films on, 53
speeding up, 36, 52, 53
techniques, 52, 53
Record storage and control, 162–176
Recruiting executives, 73, 249, 252, 253
Replacement schedules, 23
Responsibility, fear of delegating, 117, 118
Resumés, rules for, 258
Retirement, compulsory, 268, 284–291
counseling system for, 297–299
disagreement over, 289
early, 284
of executives, 267–284
executives' activities in, 274, 275
flexible systems of, 281, 291, 294
income for, 271–276, 281–283
preparing managers for, 279–281
propaganda about, 287, 288, 292, 293
questionable contentions about, 292, 293
retiring-rehiring system, 278
search for criteria for, 294, 295
"selective" systems of, 291, 294
unimportance of hobbies, 299
in unionized companies, 294, 295
use of retirement board, 278, 279
of workers, 285–300
Role playing technique, 85, 86
Rorschach technique, 58, 65, 66, 70

Salaries, increases in, 233, 234
Salary appraisal plan, 124
Salesmen, selection of, 60–63
Scanlon plan, 12
Selection techniques (*see* Psychological tests)
Self-made man, 20
Self-rating technique, 30
"Span of control" rule, 114
Special projects, use and dangers of, 26–28
Specialists, demand for, 35*n*.
placement, 254–256
staff, 115, 116, 119
Specialization, 115, 116
Staff, definition of, 115, 116

Stock bonus plan, 242
Stock options, restricted, 242, 243
Strike, case history of, 195–201

T.A.T. (Thematic Apperception Test), 62, 63, 67–70
Techniques, choosing, 129–141
Tests (*see* Psychological tests)
Thematic Apperception Test (T.A.T.), 62, 63, 67–70
Think magazine, 41
"Think" signs, 34, 41
Thinking, businessman's processes, 40
  "creative," 35, 38, 46, 47
  Lincoln technique, 47
  logical, 37
  methods of teaching, 35, 37–51
  nonlogical, 50
  "practical," 36, 37, 42, 43
  "straight," 37
"Trade secrets," 130
Training, 75–90
  apprentice, 79
  basic steps in, 80
  conferences, 84, 85
  costs of, 59, 82, 89
  errors in, 81
  films used in, 90
  in-plant, 78
  on-the-job, 78, 82
Training, outside (vocational), 79, 82
  planned program of, 83, 84
  principles of, 87, 89
  role playing in, 85–87
  supplementary, 79
  T.W.I. programs, 78–82
  varieties of, 78, 79
  vestibule, 78, 82
  in World War II, 77–82
Turnover, of executives, 249, 250

Union, cooperation with management, 208–211
  tactics of, 197–200, 205
Unionization, case history of, 197–211

"Wage-dividend" plan, 290–291
Wastebasket, use of, 162, 165
Wastepaper, cash returns from, 167, 168
Workers, developing relations with, 189–213
  house organs for, 145–161
  profit sharing with, 214–228
  resistance to incentive systems, 202
  retirement of, 285–300
  training of, 77–90
  withholding information from, 184, 185

About the Author

After graduating from Amherst and working as a student employee in an industrial plant, Perrin Stryker joined the editorial staff of Fortune *in 1935. Then for a time he was on the editorial staff of* Newsweek, *a vice-president of a corporate editorial service, and editor of a company news magazine for a large airline. During the war he served on General Arnold's Headquarters Staff in Washington. Since 1946, Mr. Stryker has been an Associate Editor of* Fortune *and has written numerous articles on American business and industry. He became a member of* Fortune's *Board of Editors in 1954. In recent years he has specialized in management and labor subjects, some of which he has discussed before the American Management Association, the Society for Advancement of Management, the International Council of Industrial Editors, and other groups.*