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Management Practices

MANAGEMENT PRACTICES

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MANAGEMENT PRACTICES

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PREFACE

The dynamic forces at work in modern society are making fundamental changes in the basic fabric of business enterprise. Business organizations are becoming larger and more complicated; but of even more significance, the nature of their management is changing dramatically.

The manager of today is called upon to coordinate and integrate a complex of technology and professional manpower within a climate of tremendous economic and social change. These conditions are bringing about substantial changes in the manager's outlook and approach. Confronted with the demands of a scientific age, he seeks integrated answers to his problems, utilizing knowledge from all segments of human experience.

The aim of this book is to chart a course of successful management practice, seeking principles and practices which endure with time and which provide a basis for sound management. The principles and practices set forth here have been applied successfully in a wide range of organizations, and they seem to meet the test of time. Management is looked at from two points of view: first, the *elements* which are the essential tasks of management and which make integrated human enterprise possible; second, the *processes* which constitute the main segments of business organization, setting forth the activities and functions to be found in the well-managed enterprise.

It would be impossible, of course, to identify all the individuals in whose debt I stand for the guidance and inspiration behind this book. I must, however, express my gratitude to my colleagues at the U. S. Steel Corporation, Herbert Depew, Ralph R. Flaugher, John H. Gorsuch, and Walter B. Rogers for their helpful suggestions and their review of portions of the manuscript, and also to Ernest Dale for his comments on outline and content. A very particular appreciation should be expressed to Ralph Raymond of the Chrysler Corporation for his painstaking and incisive review of the entire manuscript. But it must, as in any such undertaking, lie with the author to accept full responsibility for all ideas and statements of fact or opinion.

Richard C. Anderson
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INTRODUCTION

The thesis of this book is simply this: human organizations exist to serve a human need. In the business organization, the fulfillment of this purpose takes two forms: *first,* it must meet a need in the market place, and *second,* it must meet the needs of its own members.

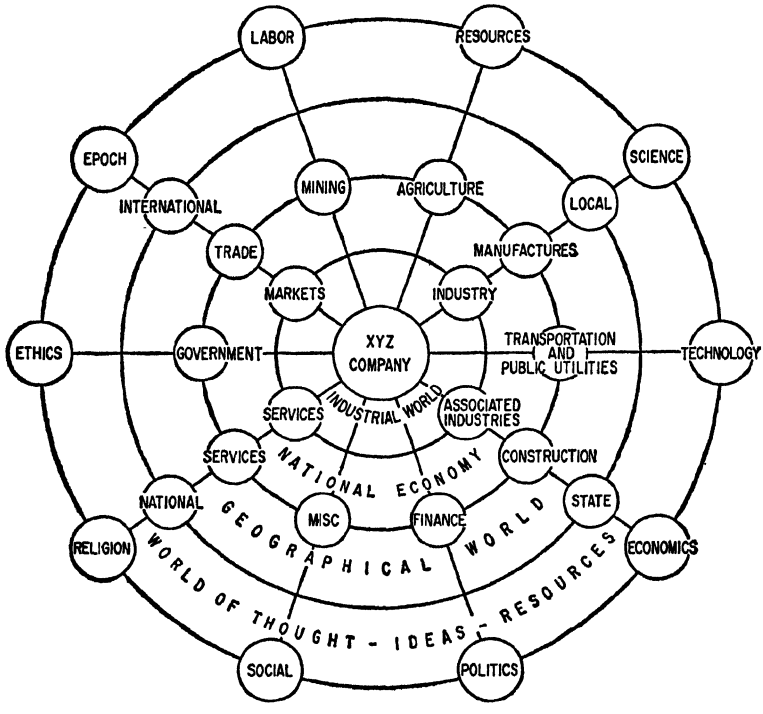
The human organization is many things—a legal "person," an amalgamation of activities, or a medium for disbursing products and services—but the most important thing about it is that it is composed of people—brilliant and slow, happy and unhappy, well and ill, good and evil. But they are all *people,* and it is the manager's responsibility to generate the type of environment which brings out the most creative human effort. The day when a *hand* was needed for the brute task of producing is rapidly coming to an end in industrialized societies. The manager's great challenge is to help release the creative energy which is man's unique gift.

We have much to learn about the art and science of management—about what makes a good manager, how he gets that way, and how organizations react to different types of management—and, more particularly, about how organizations work and how people within them are motivated to produce and to create.

But we still have the world's work to do, and while we are learning

more about the basic nature of management, we still must carry on our everyday work with the most efficient tools available. This book attempts to describe some elements and processes of management which have been tested in the rigors of daily use and which appear to have wide application. It should be emphasized at the outset that these elements and processes are dynamic, not static, and that they are constantly changing and shifting with the needs of the enterprise and the market it is serving. They are not, and should not ever be thought of as being, finally and firmly established.

THE CHAIN OF RELATIONSHIPS BETWEEN A SINGLE ENTERPRISE AND THE WORLD OUTSIDE ITS DOORS



SOURCE: Lawrence L. Bethel, Franklin S. Atwater, George H. E. Smith, Harvey A. Stackman, *Essentials of Industrial Management*, McGraw-Hill Book Company, Inc., New York, 1954, p. 403.

The managers of today are much like the farmer who was trying to hold his own in the rising tide of directions, instructions, etc., and who complained that he already knew how to farm better than he was doing it. To a great extent, managers are not even applying the knowledge they already have. This book suggests means based upon two assumptions for applying this knowledge: *first*, that human relationships (though not the manager's only concern) are vital to management; *second*, that management is subject to the application of systematic methods. These assumptions place human well-being at the center of management's attention and emphasize the social responsibilities of business enterprise.

A CONCEPT FOR MANAGING

The manager directs the activities of an enterprise in achieving its purposes. Management's success in achieving this aim may be considered from two points of view: external and internal relationships.

Externally—to the community which the business serves—the test of success is the precision with which the management predicts—and satisfies—a need for products or services. Profit, that essential lubricant to business enterprise, thus becomes a measure of how well this need is met.

Internally—to the community within—the test of success is *not* the sentimental compulsion to make people "happy," nor is it that more recent form of paternalism, the employee "benefit" program. It is, rather, the degree to which all members find greater opportunities for the full development of their capacities.

The wisdom with which managers act may well decide the future of the private business system. If private enterprise continues to meet man's needs, it will survive; if it does not, it will perish. Society imposes a stern accountability on its leaders. The form of the demand changes with the age, but the demand itself is always the same: serve the human welfare or step aside! The price of leadership can be no less.

In response to this demand (and opportunity) the manager strives

to integrate all his available resources in order that his enterprise—or his part of the enterprise—may be successful in meeting both the external and internal needs.

It has often been said that the world makes room for a man who knows where he is going. So it is with the administrator who knows where he is going. Sound management requires a sense of direction, of purpose: this is the manager's philosophy.[1] "The term 'philosophy' means . . . a body of related knowledge that supplies a logic for effective thinking for the solution of certain kinds of problems. A management philosophy supplies the basis for the solution of business problems."

A company's philosophy of managing vitally affects the manner in which the members plan and organize their activities, mobilize to achieve objectives, and appraise their results. This philosophy will manifest itself in many ways throughout the organization. For instance, a philosophy that encourages free and easy relationships will make possible a greater "span of control" and fewer levels of command, thus permitting economies in staffing.

It might be fruitful to examine the doctrine of political Democracy as a concept for managing.

The essence of political Democracy is not a particular form or structure of governing; it is rather an attitude of mind and a social system in which freedom and justice encourage man to seek his personal fulfillment. Democratic practice in a business would mean simply that each person would have opportunity to demonstrate his individual talents, to participate in decisions affecting his work and his welfare in the business, and to receive just recognition for his efforts. It would not mean any particular form or structure, nor would it mean a democratic forum in which all decisions are submitted to a majority vote before action is taken. It does imply a measure of participation and consultation, but the form of such collaborative processes would vary with circumstances of the job and organizational level. In no case would it replace the manager's responsibility.

We declare the virtues of a free society and proclaim that the entire

[1] Ralph C. Davis, "A Philosophy of Management," *Advanced Management*, p. 5, April, 1959.

community benefits when business enterprise is left free to provide its service in the manner which seems most natural to it, restricted only by necessary laws of public conduct. If free business enterprise offers a greater service to the community, so the business enterprise itself benefits when its employees have a high degree of freedom. Just as we accept political Democracy as a more creative form of society and thus more productive of human effort, so the ideal of individual recognition in a business environment is a more creative approach to management—and thus more productive. In essence, this is merely the effective delegation of responsibility. Individuals within an organization, of course, are expected to devote their efforts to the constructive good of the group. And so it is with the private enterprise system—the enterprise must serve the welfare of the community and conform to the rules of acceptable behavior.

Democratic management does *not* mean an absence of authority; it means, rather, the manner of exercising authority. The question is not whether there is or is not to be supervision, but, rather, what type of supervision it shall be. Someone must see that tasks are performed and must be responsible for accomplishment. The emphasis under a philosophy of democratic management is upon the full development and use of an individual's talents rather than upon domination of the individual's efforts by autocratic control. The manager helps develop the individual's capacities through seeking out opinions, encouraging new and original approaches, and minimizing the need for authority and status to induce favorable behavior.

One of the manager's most serious problems is to learn how others accept his leadership and what is really going on in his organization. Democratic leadership tends to remove the barriers to free expression and thus permits the manager to find out. The manager who submits himself to the consent of the governed—and abandons the myth of executive omnipotence—stimulates full expression and at the same time opens up the avenue to discovering the capabilities—and limitations—of people. In the permissive atmosphere of democratic management, communication occurs naturally and without artificial stimulation.

While a manager's success requires the cooperative support of

subordinates, the selection of managers is not a popularity contest. It has become generally recognized that two leadership conditions exist in most organizational relationships: the social leader and the business leader. The socially popular member does not necessarily make the most effective manager; but in light of what we are learning about leadership, it is reasonable to believe that people—even if they could vote—would not choose their executives on the basis of social popularity alone. One member might be preferred as a social companion, but another would probably be preferred to direct the affairs of the organization. The traits of personality and temperament for these two roles are rarely found in one person. When the selection of managers based on their acceptability by their peers is considered in this light, it presents no threat to the stability or productivity of the organization; rather, it assures a climate in which productivity is high.

It has been observed that cohesion of effort increases in direct proportion to the degree to which members understand objectives and accept operating policies. Democratic management fosters such understanding and acceptance by encouraging participation in the formulation of objectives and policies.

The democratic atmosphere has several important effects. It

1. Facilitates easy association which furthers understanding among all members

2. Reduces the conflict between ethical or political concepts of equality enjoyed in the democratic community on the one hand and a stratified hierarchy of autocratic business organization on the other

3. Recognizes that since all members benefit from business success, they share responsibilities for seeing that the enterprise functions properly, which, in turn, helps to cement sound human relationships

4. Permits the natural leader, the one who wins and deserves the respect and loyalty of his associates, to rise to a leadership position

Democratic management is not new. Successful managers have long employed democratic techniques, and their accomplishments attest to the wisdom of the method—and to the foresight of the managers. Observers of the American economy find a high degree of democratic

management in American business. A group of British businessmen, describing the American economy, observed,[2] "First, there is a climate of opinion which regards maximum effort by *every* individual as the primary guarantee not only of material standards but of the way of life of a free society. Second, there is a quality in management, inspired by this climate of opinion. . . ."

The following chapters deal with the elements and processes of management, which provide the lifeblood for managing business enterprise. But it is the writer's belief that a company's concept of managing, in the last analysis, determines how effectively these elements and processes are employed.

[2] Graham Hutton, *We Too Can Prosper*, The Macmillan Company, New York, 1953, pp. 43–44. Material used with the permission of Macmillan & Co., Ltd., and George Allen & Unwin, Ltd., London, England, publishers.

PART 1

THE ELEMENTS OF MANAGEMENT

The elements of management have been divided in various ways, including such segments as forecasting, planning, organizing, directing, coordinating, communicating, motivating, controlling, and others. There seems to be reasonably general agreement that some such classification represents the major parts of the manager's job, although the exact groupings will vary with the purpose of the user. The following discussion divides management into five elements: planning, organizing, staffing, executing, and appraising. There is no particular wisdom in this division, its purpose being merely for convenience of presentation.

The five elements follow roughly the sequence in which action occurs in the management process. Thus, planning, which embraces forecasting, should be done before operations can get under way. Next, the endeavor should be organized and staffed with adequate forces to carry out its plans. The plans are then ready to be carried out, which is the fourth element of the process, execution. When "the

show is over," the consequences are appraised and intelligence gathered for the next round.

The actual operation of an enterprise, of course, follows no such precise pattern, for all these elements are going on simultaneously. But it is helpful in describing the management process as well as in organizing the enterprise to recognize the unique place of each element.

1. PLANNING

To plan is to propose a forward program for guiding the future affairs of an enterprise.

The planning process starts with the assumption that the future will be different from the present, and it attempts to determine how the enterprise can take advantage of that difference. Planning thus becomes a device for change to meet the future.

Planning enables business enterprise to meet the contingencies of the future—not because the future can be predicted, but because the enterprise, by being aware of the need for change, is prepared for change. If we are to be completely honest with ourselves, we must concede that, even though we use the most painstaking care, some completely unforeseen event can put all our plans to naught. But this is not to say that we are completely at the mercy of nature's whim. It points up, rather, that a basic ingredient in planning is the tolerance of change, which prepares the organization to meet any eventuality.

Planning calls for an open mind and for elimination of the type of prejudice which says, "My mind is made up. Don't confuse me with facts." Men tend to close their eyes to facts which disturb them, and history is replete with the wasteful errors of blinded calculations. The

Roman Empire's persecution of Christians failed because it misjudged their zeal (the Romans eventually joined the fold themselves). Napoleon and Hitler, both misled by biased appraisals, met disaster in Russia. The 1948 presidential election in the United States will go down as one of the greatest political miscalculations in United States history. In the automobile industry the errors of miscalculation have been the death of literally hundreds of companies. Effective planning may or may not have prevented many of these failures, but we do know that planning is a fundamental characteristic of the manufacturers which remain. The story could be told a thousand times over, but the lesson is clear: refusal to face reality breeds disaster. The graveyard of business is filled with ventures which lost touch with the world about them.

Planning requires a "feel of the future." This "feel" may be a psychic sense, but it is found in greater abundance among people who are well grounded in the past and who understand the forces at work in the present. A plan should provide a springboard from the present; it should take conditions from where they are to where they ought to be. A veteran hiker lost in the woods instinctively "fixes" his location before attempting to find a course to safety. In business planning, too, we must know where we are and where we want to be in order to chart the future.

Planning also requires ability to turn the inevitable into an asset. In the more turbulent years of his journalistic career, William Randolph Hearst generated enemies as a moving wheel generates heat. One of his more violent critics, found reading a Hearst sheet, was accosted as a traitor to the anti-Hearst cause. To this accusation, the Hearst critic replied, "How am I going to find out what the so-and-so is up to if I don't read his paper?" So it is with business planning: how can the businessman know what he must do unless he knows what confronts him?

A PROGRAM FOR PLANNING

Planning may be considered in three parts: *first,* analyzing factors affecting the future; *second,* forecasting the future environment; *third,* preparing and installing plans (including establishment of objectives).

Analyzing Factors Affecting the Future

There are three primary conditions which affect the company's future opportunity: (1) the environment, (2) internal conditions, and (3) obligations of the enterprise.

The Environment. The business organization exists in three types of environment: first, in the total economy; second, in a particular industry; and third, in a specific geographic area. In each of these types of environment the company will want to consider its position in relation to its competition and to its customers or potential customers.

The Economy. If the enterprise is in a position to make its own independent appraisal of the total economy, it will want to consider a broad range of business indicators. The National Industrial Conference Board considers the following as significant barometers: (1) industrial production, (2) wholesale prices, (3) consumer prices, (4) prices received and paid by farmers, (5) employment and unemployment, (6) nonfarm employment, (7) average work week, (8) average hourly earnings, (9) average weekly earnings, (10) personal income, (11) installment credit, (12) new construction, (13) retail trade: durable goods stores, (14) retail trade: nondurable goods stores, (15) durables manufacturing: sales and inventories, (16) nondurables manufacturing: sales and inventories, (17) merchandise exports and imports, (18) bank debits, (19) residential building contracts, (20) nonresidential building contracts, (21) new orders, durables, (22) raw materials prices, (23) stock prices, industrials, (24) new incorporations, (25) business failures, (26) gross national product, (27) disposition of personal income, (28) corporate profits, (29) business expenditures for plant and equipment, (30) Federal budget receipts and expenditures.

In addition to these specific business indicators there will be other basic developments in the total economy. In the 1960s several developments would appear to be significant: (1) movements for a shorter work week, (2) atomic energy, (3) electronic developments, (4) transportation and communication developments, (5) growth of assets in insurance and pension funds, (6) foreign trade and industrial developments abroad.

Indicators of more direct influences depend upon the type of busi-

ness. Included here could be such matters as (1) long-term statistics on past production and sale of products by the total industry; (2) political and government policies on road building as they affect the cement, road equipment, or automobile industries, or social security as it affects recreation or potential recreation enterprises; (3) union movements for a shorter work week as they affect recreation centers, hobbies, and travel; (4) housing starts and their effect on the construction-related industries; (5) automobile registrations as this affects tire and related automobile-equipment businesses; (6) local population changes and the trends in population movements within a given region.

Conrad Hilton says that his organization uses a simple formula to determine whether a community can support his hotels. Such a formula would probably take account of the reasons for former success—presumably such elements as population, traffic movement in and out of the city, conventions, and the city's industrial base. Effective planning requires that causes of present success be identified and that measures be taken to duplicate or improve upon them in the future.

Competition. Competition is a major part of the enterprise's environment. It is well to know as much about competition as possible, and it is desirable to find out: (1) In what position of the total market is each competitor a significant factor—and with what products? (2) What are his business policies—credit terms, delivery schedules, discount practices? (3) What is his product line—is it a single product or a diversified line? (4) Does he own his sources of raw material and retail outlets? (5) What is his financial structure—profit ratios, equity structure, distribution of earnings? (6) What customers does he serve and what business does he obtain from these customers? (7) What is the structure of his organization and the caliber of his management personnel? (8) What are his sales territories, and where are his production facilities?

Competition, too, derives from other materials and other products in competitive industries. The railroad industry, for instance, certainly has been, and will continue to be, affected by aircraft, trucks, buses, and automobiles. In appraising competition, it would be well to ask: (1) What product or what industry could replace the company or the

company's product? (2) What inroads are these products making or what are potential competitors planning which may affect the company's future? (3) If other products have the potential to capture a share of the company's market, to what alternative products could the company's resources be adapted? (4) Could competitive materials or products be combined with the company's products?

Customers. The business must consider its direct and also (in the case of nonconsumer goods industries) its indirect customers. What are the customer's requirements, how desirable is his business, and how and on what terms can the company serve him? The following are some of the questions which could be asked: (1) How reliable is the customer as a long-range buyer? (2) What are his present and prospective future product needs? (3) What are his income and purchasing patterns and what motivational forces—psychological, sociological, and cultural—affect, or potentially affect, his buying patterns? (4) How attractive is his business—quantitywise and profitwise? (5) What are his historic relationships with competitors? (6) Is some part of his business more desirable than others? (7) What is the history of claims and complaints on former business with this customer? (8) When the customer is a business enterprise, these additional questions could be asked: (*a*) What is the pattern of his industry: is it expanding or declining, and what is the pattern of its business cycle? (*b*) What is his financial condition—credit standing and stability? (*c*) What is his organization and management structure?

The frailties of consumer acceptance impose a constant challenge. The sale of straight-edged razors, for example, may have seemed like a sure thing in 1903, but consumer receptivity to a new idea changed the course of that industry virtually overnight—and the companies which failed to meet the Gillette challenge suffered the consequences. The automatic washer met another consumer need and presented a serious challenge to producers of conventional washers in the home laundry industry. This same story could be repeated a hundredfold: the electric typewriter, the sealed-beam headlamp, television, metal panels for building exteriors, etc. The capricious consumer has little regard for the manufacturer's financial condition; he wants a product or service which fulfills his needs. The better mousetrap—and a know-

how to make it and get it to the market place at a reasonable price—is still the surest way to business solvency.

Suppliers. The supplier of necessary goods and services is a vital element in the company's prosperity. Does he also supply your competitor or competition? Is he a competitor as well as supplier? Could his operation be profitably integrated into your organization—or yours into his? Are any of his new developments capable of eliminating some of your processes? Does he supply competition with materials that provide them with a competitive edge over you? How well versed are you concerning his research and technical progress—to the extent that you are aware of his future plans, how they can fit in with your plans of the future, etc. Should your research and development be working with him to your mutual benefit? What percentage of his production do you take? How do you rank in importance to him as a customer? These and many more questions will provide answers to possible considerations of integration, diversification, acquisition, etc.

Internal Conditions. Chapter 7 below outlines a program for appraising some internal conditions of an enterprise. This program includes an analysis of top-management policy, organization and management, personnel, finance, and operations. The purpose of this examination should be to identify the company's strengths and weaknesses in order to capitalize on the one and eliminate the other. This appraisal system provides a substantial body of information from which the enterprise may assess its past and chart its future.

Planning should take into account the company's location—and the location of its industry—on the growth curve. Is it still in the rapid growth stage, has it leveled off at the top of the curve, or is it in a state of decline? The answers to these questions will provide a basis for determining such matters as capital expenditures, advertising and sales promotion, and product development. If a company appears to be in the early stages of a rapid growth, it should probably emphasize capital expenditures. If it shows signs of declining, it should emphasize its advertising and sales promotion. If it is definitely declining, it should emphasize new product development and diversification. All of these actions, of course, will be used to some extent in all situations.

Obligations of the Enterprise. A company's planning should comprehend its rights, privileges, and duties as a social institution. It should so conduct its affairs as to contribute to the community's welfare and to the preservation and growth of its institutions. A major responsibility of any business, then, is to the community within which it functions and to the institutions of that community.

An obligation of the utmost importance, of course, is that which the company has to itself (including its members, its owners, and its future participants): to maintain its own solvency through sound management.

The company's next responsibility is to its customers. The company must be willing—and able—to change the course of its business to meet customer demands and to find improved ways of service through better products, increased quality, and greater value.

The business organization has yet another obligation: to its suppliers. Suppliers furnish goods of a required quality and quantity, but they are also a valuable source of aid for better products and new applications. It is in the company's own best interest to keep suppliers advised of potential product requirements, for product developments in one industry often preview developments in another. The development of sheet steel with deep-drawing quality (flat steel which could be formed into extreme shapes), for example, made possible the "streamlined" automobile design. Suppliers and consumers working together can assure an adequate flow of goods and a reasonable market for these goods.

Forecasting the Future Environment

A forecast is nothing more than an estimate of a future condition. No one can really know what the future will bring. It is possible, however, using refined statistical techniques and representative indexes, to make some fairly accurate estimates of future conditions. After the facts of past and present are assembled, they should be appraised by the people who have gathered and analyzed the basic data, by people in direct contact with the market (such as salesmen, buyers, advertising men, and the like), and by top management who can apply over-all judgment and the perspective of their vantage point.

Judgments from a cross section of the enterprise provide a base from which the forecast is developed. The forecast could include a variety of elements such as (1) estimates of general conditions in the total economy; (2) estimates of specific conditions in the total economy which affect the company's business; (3) estimates of the total demand for products sold by the company; (4) estimates of markets for the company's current and/or prospective product line by geographical area; (5) estimates of sales possibilities within the limits of existing facilities and of sales opportunities with unlimited facilities; (6) estimates of activity at peak, normal, and below-normal conditions and for short- and long-range periods. What actually constitutes a short or long period depends on the company's individual situation, but in normal circumstances and for most industries the short range should probably be considered somewhere around one year. The long range could extend anywhere from five to thirty or forty years (the utility industry, for example, often works with forecasts extending forty years into the future). A standard for determining the optimum planning period could be: plan only for as long a period as will influence decisions in the present year.

The forecast provides a base of information from which to develop specific operating plans.

Preparing and Installing Plans

The purpose of a plan is to adjust internal conditions to a predicted environment and thus obtain for the activity the greatest advantage from this environment. The plan should be thought of only as a proposed course of action within certain projected circumstances, not as an absolute prescription for action. Action must be tempered by actual conditions as they are encountered.

The term "plan" as used here refers to a consolidated program for the conduct of some activity. It could be a coordinated company-wide endeavor, or it could be a total program for one individual segment.

Many plans, whether for one segment or for the total enterprise, require coordination with other segments. A coordinated sales and production program would be an important plan in a typical manufacturing company, and plans from other segments of the enterprise

should be coordinated with it at the points where such coordination is required. Likewise, if the sales program called for the addition of a new product line, it might be necessary to establish a new organization for marketing the new product.

Plans could incorporate both immediate programs and long-range objectives. If the plan covered a five-year period, for example, specific action could be prescribed for the first year, with general objectives prescribed for the remaining four years. The plan could be revised each year with a moving projection scheme in which the second year of the first plan would become the first year of the second plan and the year just beyond the first plan (the sixth year) would become the fifth year of the second plan.

ELEMENTS OF PLANNING

It is apparent that the complexity of modern business enterprise requires a broad approach to planning in which all activities of the enterprise are placed under the penetrating light of analysis and appraisal. Such a broad approach to planning requires a consideration of many factors bearing upon the operation of the enterprise. Following are nine of the elements which could be included in some degree or other in any comprehensive planning activity. A tenth element, production planning (scheduling), is not detailed here since methods will vary so much with each particular situation. The typical functions of production planning will be found in Chapter 8 below.

Organization Planning

Organization planning determines what functions an organization requires, relates these functions in a systematic fashion, assigns responsibilities to individual positions, and installs and periodically reviews organization plans. Properly planned structure and assignments create a clear understanding of each individual's responsibilities and of his relationship with others in the organization, thus making for more efficient and harmonious operations.

The unit responsible for developing the organization plan could have available to it a committee representing the major segments of

the enterprise to assist in formulating basic organization policies, to determine essential parts of the plan, and to advise in the plan's development. The organization planning program could include the following steps:

I. Determination of basic facts about the company. These facts might include such matters as: age of the industry and of the enterprise in that industry, type of personnel (scientific, sales, clerical, professional, etc.), number of employees, financial position, competitive conditions, geographical dispersion, and characteristics of operation.

II. Determination of company objectives. This phase would deal with such matters as the form of the enterprise (holding company, operating company, management company), company growth (through internal expansion or acquisition), product-line development, future consumers, and policy on future diversification.

III. Determination of existing functions for each position, including such items as:
   A. Purpose or objective of the position
   B. Specific activities required to carry out this objective
   C. Authority necessary to perform these activities
   D. Reporting responsibilities
   E. Supervisory responsibilities
   F. Sources of instruction, advice, counsel, and policy
   G. Relationships or contacts with other positions or with people outside the organization

IV. Appraisal of existing and projected conditions. After all available facts are assembled, these facts should be appraised in light of present and future needs.
   A. Are company and departmental objectives realistic, and do they take full account of the company's experience and resources?
   B. Are existing functions for each position adequate? Does each job fit into a sequence of operations, and is each person given sufficient authority to get his job done? Do supervisors understand their lines of accountability? Do individ-

uals have free access to others with whom their work must be coordinated?

C. Are all essential functions provided for? Are there any duplicating, overlapping, or conflicting responsibilities? What types of personnel skills seem to be required? Are each unit's standards and objectives being met?

V. After all pertinent information is considered, the organization plan could include several parts.

A. A statement of organization objectives. These objectives might cover such matters as:

1. "Staff-line" responsibilities
2. Uses and limits of committees
3. Span of control
4. Delegation of authority

B. An organization creed which specifies what everyone is entitled to know about his job.

1. The policies under which he is expected to operate
2. The degree of accountability
3. The limits of his authority and responsibility
4. The assistance he is required or entitled to have

C. A list of responsibilities common to all supervisory positions, which could include such matters as:

1. Responsibility for personnel selection, training, development, etc.
2. Responsibility for coordinating his unit's work with other segments of the enterprise
3. Financial accountability
4. Responsibility for planning and recommending future development of the assigned responsibility

D. Organization charts which show each position in a separate block and which relate all blocks by lines of authority and accountability.

E. Responsibility charts which describe the primary responsibility of each position on the organization chart. Such a responsibility statement could include:

1. The area for which the individual is held accountable

2. The extent of authority within that area
3. Activities required to carry out the responsibility
4. Relationships required to carry out the responsibility

F. Position descriptions for each position, describing in detail duties and responsibilities. These position descriptions would contain more details than statements on the responsibility chart.

G. Functional assignments which specify the part which each organization unit plays in the execution of major activities. The purpose of these assignments is to assure that all essential activities are provided for, that details of all activities are covered, and that duplication of effort is avoided. The assignments show how each position relates to every other in the execution of specific activities.

H. Standard terms and organization nomenclature, including uniform position titles and definitions of organization terms.

Product Planning

Product planning coordinates the efforts of all departments in maintaining and developing the product line. The objective of product planning is to develop and maintain the most profitable product line, utilizing the company's resources in the most effective manner. Product planning includes the addition of new products, addition of new product lines, and elimination of existing products.

The product plan outlines ways and means of developing and maintaining the most profitable product line to meet projected marketing and competive conditions and to achieve the maximum use of company resources.

The product-planning program could include the following steps:

1. Determination of company product-line capability, including such matters as: production capacity, product patents or patentability, sources of material supply, manpower skills and adaptability, financial resources, market and competitive conditions, sales distribution and solicitation channels and methods, customer service programs, and inventory capacity.
2. Determination of company product objectives, including such

matters as: vertical and horizontal product integration, product patents or licensing of patents, market penetration or withdrawal, sales distribution channels and methods, type of customer, customer product service, inventory and warehousing policies, pricing policies, and profit margins.

3. Appraisal of existing and projected conditions in the light of company objectives. Are company resources sufficient? Are existing products providing a useful place in the product lines? Are adequate material-supply sources available? Do proposed developments fulfill a substantial need in present or projected markets? Are company sales policies and methods adaptable to the type of competition and to the type of market in which a proposed product would be distributed? Do production and sales cycles of proposed products adapt to cycles of existing products? Are profit margins in the proposed new product consistent with company requirements? Are inventory methods of proposed products adaptable to company practices? Are advertising and sales promotion requirements of proposed products consistent with company experience? Are existing products providing a useful place in the product line? Are patent and licensing conditions adaptable to projected needs?
4. After these conditions are appraised, the product plan might include such matters as:
   a. A schedule for the consideration of revisions, additions to, or deletions from the product line following preliminary screening through trial testing and marketing and ultimate consumer reception
   b. Establishment of the product mix and modifications in the product mix
   c. Establishment of pricing schedules and profit margins
   d. Specification of quality standards, product design, and product names and packaging
   e. Specification of product design
   f. Designation of product names and packages
   g. Establishment of advertising and sales promotion methods
   h. Establishment of policies on patents and licensing

Facility Planning

Facility planning is the determination of needed production facilities, their types, capacities, quantities, and locations. It includes the planning of additions, alterations, replacements, construction, expansion, rehabilitation, disposal, and the timing of such action. The objective of facility planning is to provide—in proper quantity, type, and location—sufficient production facilities for maximum utilization of company resources and profitable participation in markets, both existing and projected.

The facility plan outlines ways and means of providing the enterprise with a sufficient type and quantity of facilities, properly located and adequately designed, for the maximum utilization of company resources and the maximum participation in available markets.

The facility-planning program could include the following steps:

1. Determination of company facility conditions, including such matters as: facility output capacity; accessibility to labor and material supply, transportation facilities, and markets; facility construction and operating costs, including tax levels; availability of capital; and facility maintenance.
2. Determination of company facility objectives, including such matters as: capacity expansion or contraction, diversification and vertical or horizontal expansion, acquisition of raw-material sources, production methods, accessibility to markets or customer facilities or to raw-material or material-supply sources, transportation facilities, own-lease policies, space standards, construction methods, and property valuation limits.
3. Appraisal of existing and projected conditions in the light of company objectives. Are resources available or potentially available in required quantity and quality? Do proposals take adequate account of foreseeable changes in technology? Are community services and facilities available where and when required? Are proposed construction costs and methods in line with company experience and projected conditions? Are community conditions favorable to development at the proposed facility sites, and does the community understand and accept the facility proposals?

4. With all these considerations in mind, the facility plan might include such matters as:
   a. A schedule of long-range facility additions, replacement, construction, expansion, rehabilitation, and disposal
   b. Selection of facility locations, construction methods, and material and equipment specifications
   c. Specification of cost standards and product capacities
   d. Specification of maintenance and protection measures

Operations Planning

This activity is concerned with production methods, standard practices, types and quantities of production equipment, and production capacities. It is to be distinguished from scheduling the daily operations of a production department. The purpose of operations planning is to provide the enterprise with the proper type, quantity, and capacity of production equipment in a proper location to achieve the maximum profitable participation in available markets.

The operations plan deals with means for maintaining the highest possible degree of efficient production, for keeping the enterprise abreast of developments in production technology, and for maintaining a profitable and timely flow of goods or services in adequate quantity and quality.

The operations-planning program could include the following steps:

1. Determination of company production capabilities, including such matters as: location and productivity of existing equipment, standard practices and standard practice objectives, production costs, versatility of equipment, profit margins, technological soundness of existing equipment, availability of materials and supply, availability of capital, and capabilities of present personnel.
2. Determination of company production objectives, including such matters as: production expansion or contraction, standard practice objectives, geographical dispersion, diversification, and technological developments.
3. Appraisal of existing conditions: Are company resources adequate for proposed developments? Are possible or proposed developments compatible with the company's past experience and

existing capabilities? Are existing or proposed facilities capable of adapting to proposed equipment? Is production equipment sufficient in quantity and quality to meet proposed sales objectives? Will the proposed production methods and equipment be justified by projected sales conditions? Is proposed production balanced among production facilities? Is equipment keeping pace with technological developments? Are standard practice objectives consistent with sales, competitive, and technological developments? Are possible or proposed production methods compatible with the environment of the community in which the facility is located? Is the present personnel capable, or can it be trained to operate proposed equipment? Are patent and licensing conditions consistent with company practices?

4. The operations plan could include such matters as:
   a. Specification of production methods, production levels, proposed technological changes, and standard practices
   b. A schedule of proposed equipment additions, replacements, repair, and disposal
   c. A schedule of steps to meet proposed standard-practice objectives
   d. A schedule for adjustment of volume among production units
   e. Establishment of standards for determining equipment obsolescence
   f. Specification of cost standards and production capacities
   g. Specification of type and style of production equipment
   h. Policies on equipment suppliers and on terms with these suppliers
   i. Specification of maintenance requirements and schedules

Material Supply and Inventory Planning

Material supply and inventory planning is concerned with the type and quantity of stock to be acquired and placed in inventory and its systematic location, storage, and control. Its purpose is to supply the desired quantity of product to the customer and to the various segments of the enterprise. It seeks to assure an adequate quantity of materials and supplies in the proper place, at the right time, and at the least possible cost.

The material supply and inventory plan outlines ways and means for providing the enterprise with sufficient materials, supplies, equipment, and products to assure uninterrupted production and to assure an adequate flow of finished goods to customers.

The material supply and inventory planning program could include the following steps:

1. Determination of company material supply and inventory resources and practices, including such matters as: certainty and stability of supply sources, stockpiling and warehousing practices, capacities and potentialities of suppliers and their terms and conditions of business, supply and inventory quantity requirements and quantities and locations of current stocks, procurement and supply contracts or commitments, product standards and specifications, movement and storage methods, investment and turnover rates, and inventory storage and control methods.
2. Determination of company material supply and inventory objectives, including such matters as: acquisition or release of supply sources, methods of storage and warehousing, diversification or retrenchment of sources, supply commitments, inventory investment and turnover rates, make versus buy policies, and types, quantities, and quality of inventory.
3. Appraisal of existing and projected conditions in light of company objectives. Are present supply and inventory conditions adaptable to proposed objectives? Are company resources capable of fulfilling proposed requirements? Are projected technological and other production and distribution methods considered? Are current or proposed sources capable of supplying potential requirements? Are inventory and storage methods and proposed levels adequate to serve proposed markets? Are proposed supply commitments within limits of company practices and resources?
4. The material supply and inventory plan might include such matters as:
   a. Policies on supply sources, such as whether to make or buy
   b. Types of suppliers and types of commitments to these suppliers
   c. Negotiation and form of procurement contracts
   d. Procedure for disposal of surplus or obsolete material

e. Movement and storage methods
f. Standards for determination of turnover—inventory ratios
g. Formulation of types, quantities, and location of material and finished goods inventories
h. Methods of inventory maintenance and control
i. Prescribing supply and inventory standards and specifications

Financial Planning

Financial planning provides a central point for determining the organization's future financial requirements and objectives, for developing plans and policies to fulfill those requirements and objectives, and for developing controls to assure compliance with financial plans and goals.

The financial plan outlines ways and means for meeting the company's financial requirements within a prescribed course and within a specified time.

The financial-planning program could include the following steps:

1. Determination of company financial resources and practices, including such matters as: availability and cost of financial sources, company credit standing, profit ratios, stockholder or other owner sources, and policies on borrowings and security issues.
2. Determination of company financial objectives, including such matters as: accounts payable and receivable ratios, profit ratios, equity-working capital ratios, borrowings or stock issues, reinvestment, dividend policies, reserves, capital outlays, budgetary control, accounting systems, and depreciation and amortization schedules.
3. Appraisal of existing and projected conditions in the light of company objectives. Are present moneys being utilized in accordance with these objectives? Are dividend, reinvestment, and capital outlay policies consistent with planned objectives? Are capital, earnings, equity, and debt ratios adequate to fulfill company requirements? Do accounting and budgetary systems provide an adequate picture for future planning purposes? Are depreciation and amortization practices consistent with long-range objectives?

4. After taking all these matters into account, the financial plan might include such matters as:
   a. Specifying financial sources and potential financial sources for financing capital outlays and for working capital
   b. Utilization of existing financial resources
   c. Accounting and budgetary or other financial systems
   d. Accounts payable and receivable practices
   e. Depreciation or amortization policies
   f. Profit, debt, dividend, and retained earnings ratios

Commercial Planning

Commercial planning is the estimation of future commercial conditions, the appraisal of these conditions, and the preparation of plans to capitalize on them. It includes the analysis of facts, observations, and opinions concerning demand and supply of products, production levels and potentialities, costs and expected income, sales potentialities of designated products and markets, channels through which such products are or may be distributed, means for the maximum development of markets, general economic conditions, and sales performance.

The commercial plan outlines ways and means by which the company can take full advantage of projected economic and market conditions.

The commercial planning program could include the following steps:

1. Determination of company commercial resources and practices, including such matters as: market participation, competitive conditions, selling methods, consumer and customer requirements, scope of product line, pricing and profit margins, terms and conditions of sales, advertising methods and results, and sales territories.
2. Determination of company commercial objectives, including such matters as: type of customer, market participation, method of solicitation and distribution, profit margins, customer service, advertising and sales promotion methods, and meeting of competition.
3. Appraisal of existing and projected conditions in the light of

company objectives. Are future customer and market participation objectives compatible with company experience? Are company resources adaptable to proposed distribution methods? Are projected competitive and market conditions consistent with proposed profit margins, terms and conditions of sale, solicitation and distribution methods, customer service, and advertising and sales promotion methods?

4. Formulation of the commercial plan. The commercial plan might include such matters as:
   a. Methods of marketing (use of dealership or other outlet methods, for example)
   b. Means for the development of new markets and consumers
   c. Price and profit ratio policies
   d. Sales compensation methods
   e. Distribution or solicitation policies (for example, sales territories and quotas)
   f. Customer service policies, such as warranty, guarantee, or claims-allowance policies
   g. Advertising and sales promotion policies

Human Resource Planning

Human resource planning aims to see that the company is provided with the number and type of people it will need in the future. It includes several phases: first, how many people will be needed; second, what type of people will be needed; third, when will they be needed; and fourth, what training and development will be needed. A distinction is made between the planning of long-range requirements and the day-to-day personnel responsibilities of actual selection, training, and development programs.

The human resource plan outlines ways and means of providing the enterprise with an adequate number of properly experienced and trained people when and as they are needed. The plan provides a means for helping management achieve the maximum utilization of human resources.

The human resource planning program could include the following steps:

1. Determination of company personnel resources and practices, including such matters as: the number and types of skills and training found among present staff, production per man-hour, compensation scales and methods, production standards, training and development methods, and employee promotional channels.
2. Determination of company personnel objectives and needs, including such matters as: employment stabilization, compensation plans, desired experience and abilities, total numbers of personnel, productivity, personnel selection or training, or employee benefits policies.
3. Appraisal of existing and projected conditions in the light of company objectives. Is the present labor force capable of meeting future requirements? Are training and development programs geared to future needs? Are possible compensation plans adaptable to existing personnel? Are proposed man-hour productivity levels realistic? Are development programs geared to obtaining the type of managers and specialists needed for the future? Are replacements available for key positions?
4. Formulation of the human resource plan. The human resource plan might include such matters as:
   a. Recruitment and employment methods and policies, such as transfers, promotion from within, or indoctrination
   b. Training and education programs, such as training methods, educational sources, company-sponsored training centers, or positions selected for training
   c. Management development, including methods for identification of management ability, performance rating, establishment of development positions, or outside recruitment
   d. Compensation, including ranges, incentives, or bonuses
   e. Employee benefits, including insurance, pensions, medical services, or company-paid memberships

Development Planning

Development planning investigates ways and means of securing greater opportunities for utilizing the enterprise's total resources. It appraises total capabilities and determines the types of business to

which these capabilities are most adaptable. It appraises limitations and attempts to offset those limitations by balancing and complementing existing operations. It considers the types and location of business in which the enterprise should be engaged in the future, and it investigates and collaborates in negotiating for new, and disposing of existing, segments.

The development plan outlines ways and means whereby the company's resources may be employed to the maximum advantage, taking into account all aspects of the company's capabilities and appraising the effect of possible changes in social, economic, and political conditions.

The development-planning program could include the following steps:

1. Determination of company capabilities, including such matters as: financial, personnel, and material resource potentialities; scope of current lines of business; scope of customers' lines of business; actual versus potential market penetration; actual versus potential product line and production capacities.
2. Determination of company objectives, including such matters as: lines of business, market penetration, diversification or retrenchment, integration, methods of financing, and methods of solicitation and distribution.
3. Appraisal of existing and projected conditions in the light of company objectives. Are company resources—financial, personnel, and material—adaptable to the company's projected development? Do objectives take full cognizance of trends in economic, social, and political conditions?
4. Formulation of the development plan. The development plan might include such matters as:
   a. Lines of business which the company might develop or from which it might withdraw, and the timetable for such action
   b. A schedule for the company-wide appraisal of proposed developments
   c. Factors to be evaluated in the appraisal of proposed developments
   d. Means for adjusting to change

CASE EXAMPLES

The following case examples illustrate the planned and integrated approach to solution of complex business problems:

Case I

This company was a producer of sleeve-type bearings and bushings. It expanded steadily during the 1920s and through World War II by mergers and acquisitions. By 1949 it had become a major producer of the sleeve-type bearing.

The advent of automatic transmissions in automobile manufacture opened a major market for products closely related to its own field but one for which its existing facilities and production know-how was not entirely adaptable. The company then acquired two other bearing manufacturing companies. These additions more than doubled the size of the business and rounded out the bearing line to include the three principal types: sleeve, ball, and roller.

These later mergers followed the patterns of earlier ones and maintained the company in its own fields and with its naturally related markets. With the additional resources and a combined technical know-how, the company was qualified to serve its expanded market, and within seven years its sales had increased sevenfold.

This company's planned approach to corporate mergers augured well for the success of these ventures. An "integration manual" was developed for planning the transition each time that operations were combined. The manual included the sequence of steps to be followed and the specifications of management responsibilities. It helped to establish the foundations for management relationships and effective lines of communication after the mergers.

Case II

This was a domestic producer of watches. Up to World War II it had been a one-plant operation with sales of $15 million, specializing in the manufacture of watchworks. In the early 1920s it had started an

aircraft instrument department, but this venture had been unsuccessful.

Style-conscious consumers forced a new look at old production methods, and the company management realized that, dependent as they were on outside sources for cases, attachments, and packaging, they had no control over the style of their watches. Consequently, in 1950 they acquired two companies, one producing watchcases and the other, watch bracelets. The company was then in a position to control style and at the same time to reduce supply costs and improve supply sources.

During World War II the company was pressed into defense instrumentation work and learned that its basic technical and productive know-how was adaptable to products other than watches. Thus, when the watch importer began to threaten the stability of domestic markets, the company sought to achieve some balance through diversification in related fields. Consequently, in the early 1950s it acquired three other companies producing miniature electronic components.

Within ten years after the war, the company had expanded from one plant to eight and had increased sales from $15 to $60 million. The process of diversification and the accompanying review of prospective acquisitions (they looked into more than 200 companies to find the 3 finally acquired) had several salutary effects: (1) the tempo in the whole organization was increased; (2) the opportunities for management personnel expanded, their general outlook broadened, and the need for a continuing executive development program became apparent; (3) the company's competitive position has improved; (4) the greater financial soundness of the company has increased the interest of investors.

Case III

This was a major steel producer whose products were sold to industry in a finished and semifinished state. It had major production facilities in six widely separated parts of the country, and its sales representatives covered every state in the Union through nearly forty sales offices. Its products included all the primary steel products from sheets to plates, from rails to structurals, and from bars to pipe. It also

included some fabrication of these primary products. As can be seen from the extensive operations and varied product line, the company had a very intricate problem of production scheduling and of coordinating production with sales. The importance of such coordination was intensified by the fact that each order was custom-made and that considerable time lag existed between receipt of an order and its final shipment. The scheduling and coordinating problems were further complicated by the great diversity of the company's markets and the complexity of moving tremendous quantities and varieties of product by every type of carrier.

Clearly, this company's business required an integrated effort on all fronts. The first job was to establish a coordinated sales and production program in which production schedules could be developed three, six, nine, and twelve months in advance, based upon market forecasts. While each order was made to a customer's individual specifications, there was a high degree of predictability in the pattern of product usage. In short, the product mix was relatively stable, and it remained only to identify the time and place for producing each product.

Initially, the market forecasts were relatively crude estimates taken from records of previous shipments. But even compiling this data was a tremendous undertaking because of the complex product line and the large market served. As the system developed, more precise analysis of consumer practices resulted in greatly refined market estimates. And as the market forecasts became more accurate (this process took several years), the production schedules became more stable, thus permitting greater economies in production runs.

The coordinated sales and production program was followed by a new system of order processing in which orders were entered directly on each producing facility from each district sales office, eliminating a central order-processing pool. This direct-to-mill processing system reduced order-handling time by 25 to 35 per cent. At the same time, a production planning system prescribed the times and places at which certain products would be produced, and the sales offices were guided accordingly.

The coordinated sales and production system made possible an effective program of facility planning based upon the refined market-

analysis and distribution patterns. Concurrent with the facility planning program, material supply and production methods plans were being developed. The total planning process was ultimately coordinated and integrated into a company-wide effort, with the major production and sales programs being revised quarterly and reestablished annually, with more or less precise projections up to five years and more general predictions from five to twenty years.

The results of these coordinated planning programs were dramatic. Within a few years the company had changed its reputation from that of a slow, inefficient giant to one of a fast-moving, versatile producer. Previous reluctance to place business with the company for quick delivery was replaced by confidence that this producer could outcompete other major producers in meeting deliveries and in order servicing.

Case IV

This was a company with its origin in the middle of the nineteenth century. By 1900 it was the leading manufacturer of small switching locomotives, reaching its peak in 1918. During the 1920s and 1930s business steadily declined. A complete reorganization and the addition of diesel locomotives in 1939 failed to halt the long decline.

A search for new products to diversify the product line began. The first attempt to diversify failed to take account of the company's experience and customary business methods. Consequently, the first acquisition—a group of oil-field stores—proved an expensive lesson. This business was not compatible with their other methods, and the company finally withdrew.

A series of subsequent acquisitions placed the company in a much more advantageous position to serve its traditional industrial customers. The product line is diverse, but the market is similar. It now has a product line made up of industrial rubber products, refractory materials, high-tension electrical equipment, steel and other metal products, and hydraulic equipment.

This company finds that the wide coverage of practically all industry places each of the product lines in a more competitive position than if it were independently operated, because of a greater knowledge

of total market conditions. The internal use of one division's products by another division provides the opportunities for some experimentation and adaptation for use in the public market.

This company has strengthened and rejuvenated itself, not alone by improving its market position, but by an internal balance of elements which, although not all directly related, complement each other. With a decentralized management which capitalizes on the technical knowledge and practical experience at each divisional level, a diverse product line is profitable. The headquarters organization does not try to mastermind divisional activity but provides over-all coordination and direction. This company has found its way out of a perilous situation and has rebounded with a new and vigorous program of development.

3. A PROGRAM FOR ORGANIZING

A planned organization structure outlines required functions, relates those functions in a systematic fashion, and assigns authorities and degrees of responsibility. The organization survey, with its analysis of internal and external conditions, is the starting point for achieving these results.

The benefits of sound organization have been discussed above, but it might be well here to examine the consequences of poor organization. Alvin Brown has enumerated some of the administrative problems created by organization weaknesses.[1] *First,* failure to act: this can be caused by failing to define responsibilities, assigning too great a responsibility, assigning incompatible duties, or failing to designate an alternate to act in actor's absence. *Second,* delay in acting: this can be caused by overlapping responsibilities or prevalence of committees. *Third,* wrong actions can be caused by overload of work resulting from inadequate delegation or improper or incomplete job specification. *Fourth,* lack of quality of effort can be caused by overload of work resulting from inadequate delegation or too great a diversity of duties. *Fifth,* lack of quantity of effort resulting from poor definition

[1] "Judging the Effectiveness of Organization," *Advanced Management,* pp. 13–15, January, 1955.

of responsibility, too much supervision, and uncertainty of supervisory responsibility. *Sixth,* waste of effort resulting from failure to define jobs and failure to define limits of responsibility. *Seventh,* excessive quantity of effort resulting from excessive use of committees or other joint effort, overlapping responsibilities, and misunderstanding of relationships. *Eighth,* excessive quality of effort resulting from faulty definitions of responsibility, assignment of duties requiring disproportionate skills, and improper delegation.

The organization survey aims to improve organization structure, but it also has certain other incidental benefits. In the course of the survey, each employee will have an opportunity to analyze his own activities and to reconsider the objectives, responsibilities, and authority of his position; to appraise his past performance in light of these requirements; and to acquire a better understanding of how his own position and his department's task relate to the total organization. The survey also gives management a better understanding of the organization's strengths and limitations, and it provides a means for identifying outstanding personnel by calling attention to unusual performance.

The organization structure should continually adjust to its changing environment, and in this process, responsibilities of individual members should change to meet it. Good organization planning requires that changes be made gradually; but if this ideal is to be achieved, organization ills cannot be allowed to go untended. The organization should be reviewed regularly so that changes will be made as frequently as necessary.

The organization survey may be used to establish a new organization, to revise an existing organization, or to audit present operations. It could include three phases: first, an analysis of existing conditions; second, development and preparation of an organization plan; and third, installation of the plan.

ORGANIZATION ANALYSIS

The organization analysis identifies existing conditions of the enterprise. The analysis could include the following steps:

First, *determine company objectives.* The following questions could be asked: (*a*) What about the form of the enterprise itself—is it to be, or to continue as, an individual proprietorship, a partnership, or a corporation? (*b*) Does the company negotiate or intend to negotiate with labor unions? (*c*) Are employees assisted in sharing company ownership? (*d*) What are company policies on borrowing money and on security issues? (*e*) What are company policies on credit extensions? (*f*) Does the company intend to increase its productive or sales capacity or change its share of a particular market? (*g*) Does it plan to grow through acquisition and merger or through internal development? (*h*) What production processes does it propose for the future; are its production processes susceptible to automation? (*i*) Does it intend to change its product line: expand, contract, diversify? (*j*) Does it intend to change its marketing area: expansion, contraction, consolidation? (*k*) What are policies on make versus buy, own versus lease, and vertical or horizontal integration? (*l*) Does it build its own facilities, or does it contract for their construction?

Second, *determine facts about company operations.* Necessary information here would include: (*a*) the industry in which the company is engaged (construction, manufacturing, transportation, communication, trade, finance, insurance, etc.); (*b*) age of the industry and of this enterprise in that industry; (*c*) type of personnel (scientific, sales, clerical, highly skilled, professional, etc.); (*d*) number of employees; (*e*) financial position (capitalization, profit margins, operating costs, distribution costs); (*f*) characteristics of operations (manufacturing and distributing methods, nature of product, nature of the market); (*g*) position in the industry; (*h*) competitive conditions; (*i*) geographical dispersion (operations in more than one locality).

Third, *determine existing functions.* This step could be considered in two parts: first, functions of individual positions; second, functions of the organization unit. The best way of determining individual functions is to observe and analyze the details of each individual position through interview. This process offers the opportunity to determine not only the position's functions but also its relationships with others in the organization, its predominant functions, limitations in the position's scope, and additional, assumed, or specially delegated functions.

Source material from previous experience with similar positions or from textbooks would provide much basic information in the first part of this step.

In many cases existing position descriptions may provide the necessary basic information. In other cases the information can be obtained from a simple questionnaire in which each employee is asked to describe his own position. The questionnaire has an advantage in that each employee must think about his position and record his thoughts. The questionnaire also has another advantage: the individual's explanation of his position is often quite revealing to his supervisor. Indeed, one of the most striking things about an organization survey is that employees and supervisors have such markedly differing views of the same position.

If a questionnaire is used, it could include these items: (*a*) What is the purpose or objective of your position? (*b*) What specific activities are required to achieve this objective? (*c*) What authority is necessary in executing each of the activities? (*d*) To whom do you report? (*e*) Who reports to you? (*f*) From what sources do you receive instructions? Advice? Counsel? Policy direction? (*g*) What are your relationships or contacts with other units of the organization or with people outside the organization?

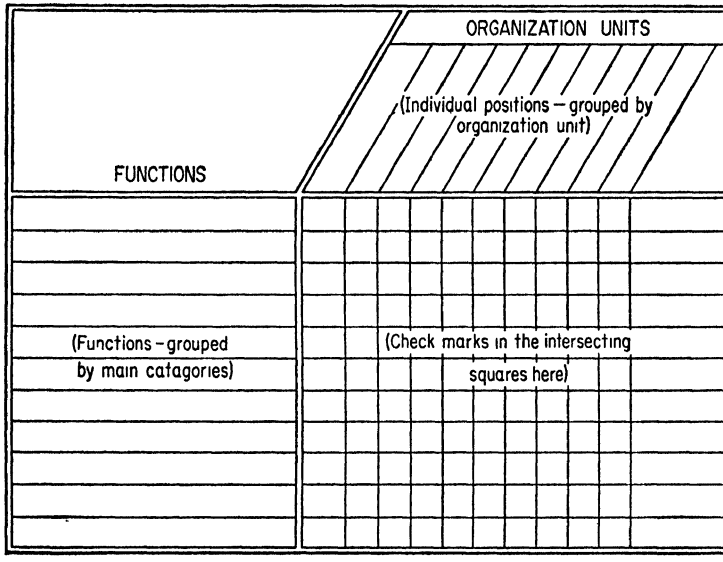
The second phase is to establish the responsibilities of organization units. For instance, the advertising department facilitates the selling process by completing the first two or three steps in selling: introducing the company to the customer, describing merits of the product, and creating a receptive mood in the minds of prospective customers. The industrial engineering department analyzes production processes and develops improved production methods through conduct of time and motion studies, analysis of work flow, and review of work methods.

A department's relations with other parts of the business are also significant in determining its responsibilities. Quality assurance, for example, inspects finished goods of the production department, and thus, in order to maintain its objectivity, it should have a measure of independence from that department.

When all facts about existing functions and responsibilities are obtained, relationships can be charted. The accompanying chart helps

to show where similar—or identical—functions are performed and reveals duplication or overlapping.

Fourth, *evaluate existing conditions.* (*a*) Are company and departmental objectives realistic—do they take full account of the company's past experience, available physical and human resources, competitive conditions, and future technological change? (*b*) Are existing position functions adequate: what part does each position play in the total activity? Does each position fit into a sequence of operations,



and with what other units must work be coordinated? Is each position given sufficient authority to achieve results? Do supervisors understand their lines of accountability? Do all individuals have free access to others with whom their work must be coordinated? Are all positions assigned a full complement of responsibilities? (*c*) Are departmental responsibilities clearly conceived: Are all essential functions provided for, and are duplication, overlapping, and conflicting authority eliminated? Can all activities be justified by a measurable contribution to the enterprise's objectives? Are the unit's performance standards or objectives being met? Is authority so delegated as to permit the mak-

ing of decisions at the point where work is performed? Do supervisors have a manageable number of people reporting to them, and does each employee know to whom he is accountable—and for what? Is there sufficient work force to carry the workload without undue burdens? (The section on organization and management in Chapter 7 below presents a more detailed evaluation of existing conditions.)

DEVELOPING THE ORGANIZATION PLAN

A new organization often entails substantial changes in individual assignments, and when these changes are understood by the people affected—particularly when they have shared in its preparation—acceptance is more easily assured. Any program for organization change should include some means for securing participation by the groups affected through collaboration in the basic analysis, the preparation of organization recommendations, or direct appraisal of organization proposals.

When the organization analysis is completed, an ideal organization plan should be prepared—one which most perfectly fits all the organization's needs. This scheme should assume no limitations on resources —personnel or otherwise. It should be a blue-sky concept of the ideal organization as a goal toward which to work. Movement from the "as is" to the ideal will often require the development of intermediate plans to help effect the transition from where the organization is to where it ought to be, thus avoiding the drastic changes which an ideal plan may entail.

THE ORGANIZATION PLAN

Depending on the type and size of organization unit, the organization plan might include several parts. A plan incorporating these parts could be used later as an organization manual.

1. Organization Objective

The first part of the plan could state the organization objectives. These objectives would deal with the fundamentals of organization

structure. Included in organization objectives might be such matters as: (*a*) principles of relationships between various segments of the enterprise (see discussion of "Line"–"Staff," Chapter 2 above); (*b*) uses and limitations of committees; (*c*) channels of communication; (*d*) assignments of authority, which may vary from the normal, such as placing the advertising manager in the chief executive's office; (*e*) preferred practice on delegating authority, such as requiring decisions to be made as close to the point of execution as possible; (*f*) span of control for certain types of activity, such as permitting a wider span for clerical and a narrower one for professional activities.

2. Position Objective

The position objective specifies those things which everyone is entitled to know about his position and its place in the company. He is entitled:

a. To know the policies under which he is expected to operate—company, departmental, and subdepartmental
b. To know the work for which he is accountable and to know what results are expected
c. To have a set of duties which provide opportunity for expression of his capabilities
d. To have compatible duties
e. To have assignments of responsibilities which are reasonably equal in their demand of ability
f. To know the limits of his responsibility and authority
g. To have adequate authority to carry out his responsibilities
h. To know his immediate supervisor
i. To know to whom he has an obligation and the extent of that obligation
j. To have the right of free access to others with whom his effort must be coordinated or to whom accountability must be made
k. To have sufficient assistance to assure execution of his duties
l. If a supervisor, to have an alternate to act during his absence
m. To expect adequate training
n. To have opportunity for personal and occupational development
o. To receive regular and candid appraisal of his performance

3. Common Responsibilities

Management positions at all levels will have certain common functions. These common functions could be included in the organization plan. A list of such functions is found in Part 2 below.

4. Organization Chart

The organization chart is a graphic portrayal of positions in the enterprise and of the formal lines of accountability among them. Each position should be shown in a separate block on the chart, and only one block should be used for each position even though several people may occupy this same position. (Buyers in a purchasing department, for instance.) Likewise, if a position is officially established, it could be shown on the chart even though it is not occupied at the moment. How much of the total organization should be shown on charts depends on company preference. Some companies prefer to show only management positions, whereas others show all positions.

The organization chart is a necessary and a reliable blueprint of how the positions are arranged. From it the members of the organization can sense the limits of their authority, can see who their associates are, to whom they report, and from whom they get instructions. Charts can go only part of the way in describing the interplay of functions and relationships. Nevertheless, charts serve to keep the main channels clearly in mind; and, in both simple and complex organizations, they are an important tool for unity of effort.

The organization chart should be considered a tool of administration to show employees how their positions fit into the total organization and how they relate to others. It should be readily accessible to all members of the organization.

The organization chart also provides a framework for personnel classification and evaluation systems. In addition, it plays a significant part in the organization improvement. When management sees how its organization actually looks, it often discovers some unintended relationships.

The organization chart also has some limitations. It shows position relationships, but if it gets beyond this purpose and attempts to show

communication channels, for instance, confusion results. Attempts to show status by block size, block shape, or location also create unnecessary complexity.

5. Responsibility Chart

The responsibility chart follows the format of the organization chart, but the blocks for certain positions are enlarged to include a statement of the fundamental responsibilities. Generally speaking, charts of this type are most effective for positions in the management range. The descriptive words used are generalized so that they can be inclusive; otherwise too many details would have to be listed to describe fully each management position. The use of planned responsibility charts shows that relationships have been carefully considered.

Statements used in the responsibility chart could describe: (*a*) the area of responsibility, (*b*) the specific limits within that area, (*c*) the extent of authority in that area, (*d*) activities required to carry out the responsibility, (*e*) relationships required to carry out the responsibility, (*f*) if desirable, the position's objectives or standards of performance. Such a responsibility statement would look something like this (letters refer to the items immediately above):

Product Engineer
John Smith Henry Roe David Jones
1. Develops and appraises (*c*) proposals for development (*a*) of new industrial rubber products (*b*) 2. Conducts laboratory and field tests on pilot models and prepares justification statements for development programs (*d*) 3. Represents the product development department in the review of product proposals originating in other departments (*e*)

6. Position Description

Position descriptions should grow out of responsibility charts and should serve a more detailed purpose, as applied to each position. They define each person's position in the organization, describe the work he is to do, and in so far as possible, set forth how he is to dis-

charge his work. However, no position description can ever define in full detail and with precision exactly what a person does or how much authority he has.

The position description is a detailed statement of duties and responsibilities. As with the organization chart and responsibility chart, there need be only one description for each position regardless of the number of people occupying that position. A properly prepared description can be used for several purposes: for acquainting the individual with what is expected of him, for assistance in salary evaluation, for recruitment, and for appraisal of performance.

The position description could include the following information:

I. Nature of the work
   A. Scope of responsibilities (basic statement taken from the responsibility chart)
      1. Extent and limits of authority
      2. Financial responsibility and accountability
   B. Activities
      1. Duties required to discharge responsibilities
      2. Relationships
         a. Within own department
            (1) Supervision received and exercised
            (2) Authorities
         b. With other company departments
         c. Committee memberships
         d. Outside the company

II. Indexes of performance

7. Functional Assignments

This section of the organization plan specifies the part which each unit of the business plays in the execution of every activity. These assignments assure that all essential activities are provided for, that details of all activities are covered, that all duplication of effort is avoided, and that everyone is aware of required relationships. The accompanying example illustrates one manner in which this information might be presented.

Area and activity	Function: management control—product planning
1. *Planning*—Product planning *Research*—Products	*Planning* is responsible for planning a profitable product line and for developing new products and broader applications of existing products, with *Research* testing performance of products, developing improvements in products, advising on production and performance of new products, and preparing trademark and patent specifications.
2. *Executive Committee*	Determines company product mix and facility allocations. Approves additions, deletions, or changes in the product line.
3. *Production*—Management	Collaborates in the planning of new products.
4. *Production*—Facilities	Advises on requirements of facility layouts in the planning of new products.
5. *Production*—Product service	Consults and advises on technical product matters. Reviews the performance of produced products. Collaborates in the development of new products or improvements in existing products. Advises on the development of new processes.
6. *Production*—Production	Advises on the use of materials in the development of new products.
7. *Sales*—Merchandise or product planning	Keeps abreast of changes in customers' processes, products, and designs. Determines product profitability. Develops and recommends the most profitable product mix. Studies performance of company and competitors' products and distribution. Develops new trademarks. Collaborates in the development of new products or improvements in existing products.
8. *Sales*—Commercial, research	Determines relative profitableness of products. Assists in developing product mix. Estimates demands for new products. Analyzes effects of design, packaging, and physical characteristics of products. Analyzes distribution of company products, including product mix (types, grades, finishes, sizes, shapes, and quantities). Analyzes the competitive position, profitability, and commercial adequacy of existing products. Advises on new product names and package designs. Advises on adequacy of the product line.

8. Glossary of Terms

Organizational relationships are described with words of varying meanings and connotations. Thus, "to direct," for example, can mean to set in a straight line, to point or to aim, to guide, to prescribe, or to order. Any or all of these definitions could be used in an organizational document. The organization plan should include a definition of terms employed in charts and descriptions.

9. Organization Nomenclature

Organization terms and position titles, such as "department" and "manager," should be used in the same way throughout the organization. The following is a commonly used set of terms for organization units:

Primary unit: department
First subdivision: division
Second subdivision: section
Third subdivision: unit
Fourth subdivision: group
Fifth subdivision: branch
Sixth subdivision: office

Further subdivisions or other units within these subdivisions may include: plant, laboratory, district sales office, mill, etc.

Position titles should also be standardized so that each title will have the same meaning wherever it is used.

Words for geographical areas like "region," "area," "district," or "territory" should follow a consistent sequence. For example, the first subdivision could be "region," the next, "area," etc.

10. Organization Procedures

The format of the organization plan should be described. For example, the meaning of block size and shape, line size and shape, and horizontal and vertical block locations should be explained. Method of reproduction (printing, photostat, etc.), numbers of copies to be prepared, and names of all people to receive copies could also be prescribed.

Provision should be made for periodic review and revision of the organization plan.

INSTALLING THE ORGANIZATION PLAN

Installing an organization plan may have to be done in stages. When proposed changes drastically modify existing structures, it may be desirable to divide the long-range plan into several intermediate stages and to install it over a period of months or years.

A word should be said at this point about fitting existing personnel into the new structure. The primary purpose of organization change should be to utilize the existing staff and to improve its effectiveness. The discharge or downgrading of a few key people who do not fit perfectly into new plans will create more discontent and cause more disruption than any good which may come from organization change. There may, of course, be times when flagrant opposition or sabotage calls for replacement, but this should not be a license for wholesale discharges. The organization plan should utilize existing personnel, but the plan should not be sacrificed just because the present staff is inadequate. When an activity is of sufficient importance, it may be necessary to bring in someone from outside the organization in order not to destroy the plan's purpose.

But organization changes must be thought out in the light of their effect on people. People never quite see what the boss sees. His intention is one thing; their guesses about it are quite another. To bring intention and understanding together, full explanation must be made. Positions newly assigned to meet new conditions should be explained and described in their relations with others.

When the plan is ready for installation, its details should be explained to all interested persons. These explanations could be made in group meetings, in individual conferences, or in written communications. They should cover the differences between the present and the proposed organization: the benefits expected from the new structure —economies, better working conditions, and more efficient performance—and the required personnel adjustments.

The acceptance of a new organization plan is not different from the

acceptability of any other new idea. The stages through which new ideas go have been described as follows: (1) doubt and suspicion at all levels; (2) open opposition to this new form of "regimentation" or curtailment; (3) passive resistance; (4) lip service; (5) gradual realization of its worth; (6) acceptance as a method of operation; (7) insistence upon its use. Only when acceptance has reached the sixth and seventh stages is the program in full operation. The method by which the plan is prepared and the manner in which it is introduced will determine its acceptability and use.

After the organization plan is put into operation, it should be reviewed periodically to see how members are adjusting to it and to see how the plan itself is working out. If modifications of the original plan are called for, they can be made as conditions require. The organization plan thus becomes a continuing operational tool.

CASE EXAMPLES

The following case examples illustrate a few typical conditions encountered in the organization survey. The solutions offered may or may not fit other situations, but they do suggest a possible method of approach.

Case I

Two managers of equal status reported to a common director. Confusion in responsibility assignments led to their vying for position and eventually to deep-seated suspicion between them. This suspicion was carried to others in the organization. Subordinates of the two men, realizing their managers' confusion, came to regard themselves as free agents. Soon everyone was working independently of everyone else, guarding the nature of his work lest someone discover what he was doing.

A reorganization established clear responsibility assignments and thus eliminated the cause of the original confusion. Within a short time, production had increased and work was flowing smoothly again.

Case II

This department consisted of three sections, two of them serving all departments of the company and the third serving one department exclusively. The section which served one department had no responsibilities in common with the other two sections. Since there was no occasion for contact with the others, the one section came to be regarded as a separate department. The manager of this section took on an air of indifference toward his immediate superior—the department director—as the director gave more and more of his time to the company-wide service. The independent position of the one created resentment within the other two sections. The two sections felt they should have equal status with the other one, and they came to regard the director as a block to their proper recognition.

An organization survey recommended that the one section be transferred to the department which it was serving. While this organization change seemed a simple and logical solution, it was met with resistance by the director and the department it served, because it represented a serious break with past practice and custom. But the transfer was made, the source of irritation was eliminated, and the director's control over his two remaining sections was reestablished.

Case III

This was a retail merchandising company operating more than a hundred grocery, dry goods, appliance, hardware, and general merchandise stores. The company had divided the country into two geographical divisions, with a division manager in charge of each. In each division there were approximately fifty stores, and each store manager reported directly to the division manager. In addition to the fifty store managers, each division manager had an office staff and three assistant division managers. The three assistant division managers were assigned to any and all problems, dealing directly with store managers as their assignments required. As one assistant complained, "Jobs are parceled out to the first assistant who passes the boss's door."

The store manager did not know who was his boss, nor did he know the extent of his responsibilities and authorities. When something went

wrong at his store, the manager could always point to someone else who was at least partly responsible. Everyone was trying to do all things, with the result that nothing was done completely.

A reorganization established full responsibility for all store operations in the store manager, placed each assistant division manager in direct charge of a group of stores, and removed the division manager from direct supervision of store managers. Full assignments of responsibility with requisite authority eliminated the uncertainties which had created the earlier confusion.

Case IV

This company sold heavy industrial equipment in 32 states. The country was divided into 12 sales districts. In each district there were 10 to 15 retail stores, each in the charge of a store manager.

Reporting to each store manager was a general merchandise manager, who determined types, kinds, and quantities of products to be placed in inventory and offered for sale in that particular store.

The store inventory—under the full control of the store manager—was designed to meet every possible customer requirement, with the result that many expensive and rarely used goods remained on the shelves for years.

This complete decentralization of inventory control also prevented the coordination of inventory among the various districts. If an item was overstocked in one part of the country and understocked in another, no one knew about it; and when a store was out of one item, there was no central point to advise whether it was available in any other store.

A reorganization transferred inventory control to a separate merchandise department to which was attached a merchandise planning committee. The store managers were represented on this committee. Merchandise managers in each store were placed under the jurisdiction of the central merchandise department. Removing inventory control from individual store jurisdiction made for a more realistic determination of inventories and provided a focal point for the control of company-wide inventory, while at the same time giving full consideration to the store manager's viewpoint.

Case V

This company operated in twelve states. In each of these states there were a factory and a sales office. The company representative in each state (called a "district manager") was in charge of both manufacturing and sales, and he reported directly to the company president. In the headquarters organization there were vice-presidents for sales and for manufacturing. These vice-presidents planned the company-wide program for their respective activities, but they exercised no direct authority over the district managers. Some intrastate coordination of sales and production scheduling was necessary, but such coordination was not vital.

Experience showed that supervision of the manufacturing function consumed most of the district manager's time, and the sales force was left without adequate supervision. In addition, coordination of the sales effort among districts was practically nonexistent. The company-wide sales effort was suffering, and the company was losing its position in the market.

Analysis of this company's problem revealed that the district sales effort was being diluted by the pressure of manufacturing problems. While intradistrict coordination of sales and manufacturing was necessary, the coordination of company-wide sales activities was more important.

A reorganization placed all district sales personnel directly under the headquarters sales executive, and the district manufacturing activity was placed under the headquarters manufacturing executive. Intradistrict coordination—coordinating deliveries with production schedules—was achieved through locally established procedures. The business was reorganized around its primary objectives, and the structure provided the necessary coordination. (See Chapter 4 below for a more detailed discussion of this headquarters-field organization.)

Case VI

In the top-level organization of this company there are separate departments for industrial relations and public relations, each responsible directly to the company president. The company wants to reduce the

president's burdens, and it has been suggested that these two departments be consolidated.

Those favoring such a plan say that public and employee relations are all part of the same endeavor. The attitude of the public affects employee attitudes, and, conversely, the attitude of employees influences public opinion. In order to establish the company's position in the community and at the same time assure employee satisfaction, these two elements must be coordinated. They are, it is said, two edges of the same sword.

Those rejecting the combination argue that employee relations are a particularly sensitive problem of management and require the undivided attention of one unit at the very top of the organization. The personnel effort would be diluted if combined with another activity. People, it is argued, are a company's greatest asset, and the company's personnel program should have clear and unencumbered access to top management. It is further contended that the skills, training, and approach required in employee relations are entirely different from public relations. One or the other would be slighted if the same person were given responsibility for both.

4. SPECIAL ORGANIZATION PROBLEMS

There are a few chronic organization problems which arise in companies everywhere and which call for similar solutions. The following discussion sets forth some of the pros and cons, some of the guideposts, and some of the pitfalls in these crucial aspects of business organization.

HEADQUARTERS–FIELD RELATIONSHIPS

The relationship between headquarters and field poses one of the most difficult of all management problems. Three types of relationships can exist:

First is the "straight line" organization. Here the headquarters sales executive, for instance, has direct charge of all sales. The field sales organization could be divided into districts with a sales manager for each district. When sales is the only field activity, this system is fine. As district operations expand, a district manufacturing manager may be added. We then have direct headquarters supervision of both sales and manufacturing. When districts are not too widely dispersed, this may be satisfactory, but when local sales and manufacturing must be coordinated, headquarters control becomes extremely difficult. A single district management then becomes necessary.

Second is the "decentralized" form of organization. Here a district manager, usually reporting to the chief executive at headquarters, is in charge of all district operations. If there is still a headquarters sales executive, he becomes responsible for company-wide sales policies and advises both the district manager and the chief executive. He has no direct authority over district sales activities except for that delegated by the chief executive in specific situations. The headquarters sales executive thus becomes a planner and an adviser.

The district manager has full charge of his district. He is accountable for total results in his area and is in a position to adjust policies to local conditions. But this plan also has its disadvantages. District results will reflect the individual differences of district managers. District autonomy may improve coordination within districts but decrease coordination between districts.

A *third* type of headquarters-field organization has evolved to resolve the difficulty of district autonomy versus headquarters control. This is often called "functional control." Here the headquarters sales executive controls district sales activities; the manufacturing executive controls manufacturing activities; the purchasing executive controls purchasing activities; and so forth. The district manager merely coordinates the local aspects of these various activities, yet he is responsible for overall performance. This system pools specialists in the headquarters, specialists whom any one district could not afford; it applies policies uniformly throughout the company; and it retains direct accountability for each activity. But it also has some serious disadvantages. The district manager does not have sufficient authority over local activities to control attainment of prescribed objectives. Also, he has several bosses, as do the district sales and production people.

Thus, the headquarters-field relationship creates a dilemma. In the first instance, headquarters control weakens local coordination. In the second instance, local control weakens company-wide coordination. And in the third instance, multiple reporting responsibilities complicate interdepartmental relationships.

Coordination is the basic need in headquarters-field relationships. If district coordination is essential, a strong district management is called

for. If company-wide coordination is paramount, a strong headquarters organization is preferable.

The circumstances in each case should determine which method is best, but in no case should the features of one be mingled with those of another. If the second method, coordinated district management, seems best, headquarters specialists should not be charged with results in the districts. If functional control is used, the district manager cannot be held fully accountable.

Where conditions require a district operation, district organization of the second type is probably the most satisfactory. The district-type organization is flexible. For example, if sales is the main effort, districts could be placed under a headquarters sales executive. The district manager then becomes, in effect, a district sales manager. Other activities would be coordinated with sales at the district level.

STRUCTURE OR PEOPLE

Should the organization structure be built around people, or should people be adapted to the structure? In spite of the controversy generated over this issue, the question is really quite academic, for in nearly every case both approaches are necessary. Unless the organization is entirely new, there is actually no alternative but to utilize existing personnel. It is also true, however, that existing personnel must adapt to necessary change.

Assuming that the enterprise is already in existence, the preferred approach is first to develop an ideal organization plan without regard to existing personalities. (See Chapter 3 above.) Such an approach would consider only those activities needed to perform the unit's responsibilities, the authorities needed to carry them out, and proper relationships of the various units.

After the ideal plan is developed, it should be reviewed in consideration of available personnel. Does the enterprise have people capable of managing the proposed organization? In most cases, a few people will fit perfectly into the new structure; others, nearly so; and still others, not at all. The first group presents no problem. For a position into

which some individual almost fits or into which no one fits, there are two alternatives. Either the positions should be modified to accommodate available people, or people should be brought in from outside. Significance of the function and its place in the total organization will determine which of these courses is chosen.

If the experience of one already in the company is close to the requirements of a new position, or if a measure of training will equip him for it, it may be preferable to modify the requirements and accommodate available personnel. If, on the other hand, no one's experience is adequate and if the function is so vital as to preclude modification, it may be necessary to bring in someone from outside the company.

In most cases, of course, it is preferable to modify the ideal plan to suit available people. If the proposed organization, for example, combined traffic, purchasing, and inventory control into a single materials department and if there were no one with the breadth of experience to handle such a responsibility, it might be preferable to continue the separate departments until someone could be trained. The combined department could be kept in mind as an ultimate objective.

A new organization can be installed either rapidly or gradually—by revolution or by evolution. The former process, while sometimes necessary to prevent complete collapse, is highly dangerous. Such extreme measures create severe strain on the most healthy organization; on a weak one, they could be fatal. In any event it is a calculated risk. If the gradual approach can be used, it offers stability for the present and a more adequate plan for tomorrow.

The size and age of the organization have much to do with the rapidity of change. In long-established organizations ingrained practices of existing personnel may make their adaptation impossible, and their long service may make their replacement virtually impossible. In newer organizations changes will be more readily accepted.

Organization change in major industrial enterprises presents yet another problem. A sudden upheaval in the management of an American Telephone and Telegraph or a General Motors, for example, could have far-reaching effects in the nation's entire economy. The men whose decisions govern these industrial giants must consider the tre-

mendous social implications of their conduct, and it is a mark of maturity in the American economy that these men, for the most part, display an awareness of their awesome responsibilities.

SPAN OF CONTROL

Span of control refers to the number of people directed by a single supervisor. As the term "supervisor" is used here, it refers to anyone (from the chief executive to the first-line supervisor) who has responsibility for directing the activities of others. Span of control determines whether an organization structure shall be a "flat" one or a "deep" one. If supervisory responsibilities are such that each supervisor can direct a relatively small number of people, the organization will be deep; if a large number, the organization will be flat.

The need for free flow of ideas and information—for easy communication—is a primary consideration in determining supervisory levels. If management governs by edict, channels of communications are relatively unimportant; a narrow pipeline through which orders can flow swiftly is sufficient. If, on the other hand, management wants the full benefit of experience at all levels, channels must be broad enough to permit easy flow, and the number of relay points (supervisory levels) should be kept at a minimum. The desirability of a "flat" organization, however, must be balanced against the human limitations of supervisory burden.

The nature of the task being supervised and its organization level also have a bearing on the span of control. If the activity is routine, one person could supervise a relatively large number—perhaps as many as thirty. If the task is relatively routine but requires close attention to details, a smaller number would be called for—perhaps as few as four or five. If the supervision involves execution of long-established policies, the span of supervision could be relatively broad—perhaps as many as fifteen or twenty. If policies are tentative, a smaller number would be desirable—as few as five or six.

The maturity of an activity is another factor in span of control. When an activity is new, or when programs are still being developed, a

greater degree of supervision is required. When the activity becomes firmly established, the need for supervision diminishes and the supervisory load can be broadened.

If a supervisor has responsibilities to outside groups and if these external obligations consume a major portion of his time, the span of control should be proportionately less than for one whose total effort is spent on internal affairs. Where the supervisor spends most of his time in outward contacts, it may be desirable to have a full assistant for internal administrative affairs, thus permitting a broader span of control under the assistant than is possible under the principal.

The use of special assistants often provides a solution to the dilemma of span versus levels. (See discussion of this subject below.) The special assistant, particularly at policy levels, can absorb many routine burdens without adding another level of supervision and can thus make possible a broader span of control.

THE ASSISTANT

Is there a place in business organization for the position of assistant? Some companies have assistants for most major positions; others have gone so far as to say, "No assistants!"

Like any other business practice, the use of assistants depends on individual circumstances. In some situations it would be unwise to employ assistants; in others, it may be essential.

Assistants may be of two types: *first,* the personal assistant with a limited set of duties and no major supervisory responsibilities; *second,* the full assistant who shares the principal's total responsibilities.[1]

When to Use?

Personal Assistant. The personal assistant may have two types of responsibilities: *first,* a regular, continuing activity, or *second,* diversified assignments varying in type and duration. In either case he would have no authority over the principal's other subordinates, except as

[1] A third type is sometimes considered where the principal assigns a share of his total responsibilities to each of several subordinates. Since actually this is only the situation normally found in any supervisor-subordinate relationship, it will not be considered in the assistant classification in the following discussion.

may be specifically assigned. Some titles commonly used are "staff assistant," "assistant to," "administrative assistant," "special assistant," or "executive assistant."

The personal assistant may help draw up plans, interpret them to others, or keep the principal advised on their execution. In situations where an indirect approach is desirable, he may seek out opinions of others on matters of interest to his principal. Or he may perform miscellaneous coordinating or expediting services.

In many situations a personal assistant will help the president review and develop the company budget, develop and maintain an executive compensation structure, or consolidate a company-wide long-range planning program; in short, he may assist him with over-all administration through performing segments of tasks which must remain with the chief executive.

Need for a personal assistant may arise in a number of ways. When the principal is faced with any of the following situations, a personal assistant may be in order: when the principal's responsibilities require detailed analysis and appraisal; when a segment of his job requires an understanding of technical matters outside his experience; when he serves on a number of committees for which he must analyze and evaluate complex circumstances; when there is much routine correspondence; when there are routine documents to prepare or approve; or when there are many contacts outside the company. In some of our larger industrial organizations positions of this type may be filled by staff specialists, sometimes referred to as Administrators.

The personal assistant, by taking over administrative routines, permits the principal to supervise a larger number of people. Thus, with a greater number of people reporting to each management position, the organization would require a smaller number of managers. And this in turn would facilitate communication by reducing the number of communication "channels."

The personal assistant position may also provide a training ground for younger men. The intimate knowledge of an organization's inner workings gained from firsthand observations can be a valuable aid to future practice.

The position may also provide a place for the older, experienced man

who, for reasons of health or in preparation for retirement, requires a less strenuous position. Unfortunately, this type of position has too often been a "dumping ground." But when it fulfills a real need and when the individual's experience would otherwise be lost, the position serves a substantial purpose.

Full Assistant. The full assistant assists the principal in his total responsibility, supervises all other subordinates, and acts for the principal in his absence. He may be given more limited scope in certain situations. For instance, he may act for the principal only in the latter's absence, or subordinates may receive supervision from the principal in some instances and from the assistant in others.

The full assistant has a unique place in the enterprise. It is one of the few situations where a supervisor directly supervises just one other person and where two different people have approximately the same duties.

There are five situations where a full assistant might be employed to good advantage:

First, when the principal has heavy responsibilities outside his own unit. He may serve on committees; he may maintain contacts outside the company, as with customers or industry associations. The assistant here relieves the principal of administrative detail and frees him to assume these other responsibilities and still keep abreast of critical internal affairs.

Second, when the principal has extensive long-range planning responsibilities. An engineering executive, for example, may have responsibility for planning future facilities, and he may need someone to administer the day-to-day affairs of his department.

In these first two cases the assistant will make it possible to lengthen the organization span: increasing the number of people reporting to a manager and thus shortening the chain of command. This can actually result in fewer supervisory positions.

Third, when subordinates require close coordination on a day-to-day basis, as when the tasks of subassembly workers must be coordinated with those in assembly to assure the continuous flow of material for production. The use of an assistant here would keep operations going during unavoidable and necessary absences of one or the other.

Fourth, when a replacement is being trained for the principal. This could result either from pending retirement or transfer of the principal. The assistant position here presumably would be of temporary duration, giving the incumbent a "breathing spell" and providing him with experienced counsel through initial periods of assignment.

Fifth, to supplement the experience of the principal. For instance, the administrator of a research department who is not a scientist himself might appoint a scientist for guidance on technical matters. (In most cases, this purpose would probably be better served through using the personal assistant.)

How to Use?

In the absence of the above conditions, the use of assistants may be unnecessary and may even reflect organization weaknesses. But the use of assistants has often been criticized on broader grounds. The following are some of the administrative problems encountered in using assistants.

Handicap or Benefit? If the principal would delegate, it is argued, a full assistant would be unnecessary. Better delegation would assign activities to appropriate subordinates, thus leaving with the principal only essential managerial duties. While there are undoubtedly many situations where delegation would improve administration, delegation alone is not always enough. Obviously, if all the principal's functions could be delegated, there would be no use for the principal in the first place. But if the position is necessary, an assistant could facilitate management under any of the five situations described above.

It is also argued that the full assistant, by adding another level of supervision, imposes a barrier to communication. Of course, communication can be hampered by increasing the number of levels, but if the position is needed and if the assistant maintains proper relations with his principal and subordinates, there need be no barrier. In fact, quite the opposite might be true. An assistant can actually facilitate communication if the press of outside matters has made the principal inaccessible.

Further, it is contended that with a full assistant the principal will lose touch with his unit's activities. Actually, the assistant should relieve

the principal of routine details and thus give him more time for essential affairs. If the principal does lose touch, the fault lies with the manner of administration—not with the existence of an assistant. There is no reason why the principal cannot keep himself up to date with an adequate system of controls. A sales executive, for example, might keep himself informed through a periodic report from each salesman on the dates of customer contacts, orders solicited, actual shipments, and credit standing.

It is contended that the assistant position increases administrative costs. The addition of a new position will, of course, add one item of expense, but that position can actually reduce over-all expenses if it permits a greater span of control and thus reduces the total number of principal supervisors.

Some people insist that the use of assistants reduces opportunity for advancement. If the position is essential, it becomes a point of advancement as significant as that of the principal without an assistant. Thus, the line of promotion is merely lowered one level, and, further, there are two positions to which members can advance where formerly there had been only one.

The appointment of a full assistant, it is said, puts a "mortgage" on the principal's job, and his replacement becomes a foregone conclusion. But if the assistant is selected as a replacement and fails to develop as expected, there is nothing to prevent the selection of someone else to replace the principal. In many situations, the assistant should not be thought of as a replacement for the principal.

Assistants (particularly the personal assistant) may encroach on the prerogatives of others in the name of the principal. The assistant who "throws his weight around" can create consternation when others conclude that he speaks for the boss. Here, again, the solution lies in administration. Clear definitions of responsibility and decisive administration can eliminate this difficulty.

Finally, there is the danger that personal assistants will be assigned jobs within the responsibility of someone else. Here, too, clear definitions of responsibility can resolve most such misunderstandings. One criterion for determining when personal assistants are beyond their scope might be this: if the assistant must rely on someone else for the

basic tools in executing an assignment, the job should have been assigned to the other person in the first place.

The Assistant Compounded. Recognizing that it may be necessary for someone to act in the absence of a principal, some organizations rotate secondary responsibility among a number of immediate subordinates as the occasion requires. At one time *A* will act for the supervisor and direct the affairs of his associates *B* and *C;* the next time, *B* will be designated to direct *A* and *C;* next, *C* will direct *A* and *B;* and so forth. This, it is argued, develops people by broadening their perspective and by providing opportunity to exercise managerial responsibilities.

The argument for rotational assignments is attractive, but when normal, friendly rivalry among coequal associates is coupled with the opportunity for one to exercise authority over another, a perilous strain is placed on human relationships. The part-time supervisor who directs his associates at irregular intervals is in a most unenviable position. Proponents of rotation usually advocate that all associates—particularly the associate whose segment is affected—concur in decisions made in the principal's absence. But if decisions are to be so made, what purpose does the alternate serve?

If the principal is seldom absent, he needs no alternate; if absent often, a full assistant would be preferable.

The Assistant Misplaced. The existence of an assistant may reflect faulty administration. When top management refuses to permit other management levels to delegate, assistants are likely to increase. If each manager is expected to have immediate answers on all facets of his activity, for example, he will tend to assign the coordination of daily work to an assistant while he keeps abreast of operating details. When top management makes such unreasonable demands, there will be a tendency to repeat the practice at all levels. The solution to this problem should be obvious, and policies either for or against assistants will not change the situation. When managers are under such compulsion from top management, assistants will appear *in fact* even when not formally recognized.

An assistant may sometimes be used to cover up for a weak manager. The use of assistants in such situations can be justified on grounds of

necessity, but it should be apparent that the best solution lies in a different course.

Some organizations seem to use assistants as a symbol of status. The principal, given an assistant, presumably moves up a notch in the organization hierarchy. A cost-conscious management would find it hard to justify such practice and certainly could not tolerate it for long. The solution to this one lies in the company's management philosophy.

There is certainly ample evidence that assistants can—and often do—confuse administrative responsibilities by insulating the principal from his organization. Where the principal deliberately removes himself from the intricacies of his responsibility through dependence on an assistant, he is merely debilitating his own position. Likewise, where the principal relies on the assistant to avoid delegating greater responsibility to other subordinates, he is weakening the basic fabric of his organization.

Thus, while the assistant position may often improve administration, it may just as often weaken it. The decision as to when and when not to use an assistant will be greatly influenced by the personality of the principal, but the basic consideration should always be whether the addition of an assistant will contribute to the organization's effectiveness.

Principal-Assistant Relationships

The relationship between principal and assistant requires a delicate balance of personal adjustment as intricate for one as for the other. The assistant must adjust himself to the methods of the principal, but the principal must also take account of the assistant's traits.

But the problem is not essentially different from any other supervisor-subordinate relationship. Fundamental to this relationship is the delegation—and assumption—of responsibilities. There are at least six steps in this process:

First, learning to rely on other people for judgments governing basic decisions. This realization that one is "at the mercy" of one's subordinates is a sobering and humbling experience. In short, the principal should discipline himself to the realization that he cannot control every act of each subordinate and that others must act for him.

The assistant, on the other hand, must realize his responsibility to the principal and execute the principal's responsibilities in accordance with his policies.

Second, determining what to delegate. Three guiding rules may be given here: (*a*) where policies are clearly established, subordinates should be free to act independently; (*b*) where policies are clearly established but where action may affect other segments of the business or may lead to changes in policy, subordinates should be free to act but should keep the supervisor informed of action taken; (*c*) where no policies or precedents exist, subordinates should act as they know the principal would act, consulting him in advance or informing him of action taken.

Third, defining authority and responsibility. This entails the determination of all necessary activities, assigning responsibilities and authorities, and placing activities in a balanced relationship.

Fourth, stimulating performance through understanding and responsive leadership. In such an atmosphere the individual is accepted for what he is and is encouraged to use his talents to the utmost.

Fifth, encouraging completed assignments by leaving each individual to perform his assigned responsibilities according to his own methods. This also implies that the subordinate will not look to the principal for detailed instructions.

Sixth, appraising performance against established standards. Such appraisal serves three purposes: (*a*) to discover if objectives are being achieved; (*b*) to assure that standards are applied; and (*c*) to determine the adequacy of operating programs.

Selection

The selection of an assistant, as of any other employee, must take account of the position's requirements.

Qualifications for the assistant may be quite different from qualifications for the principal, and individuals suited for the one may not be suited for the other. For instance, the professional man may be well suited for an "elder statesman" role but not at all for a supervisory role.

On the other hand, it seems to be true that some men make better managers than assistants. Unfortunately, the qualities that may make a

person a better manager could make him unacceptable as an assistant and thus close off a natural avenue to a principal position. For instance, if he exercises a natural tendency to take the initiative while still an assistant, he may so entangle himself with others' prerogatives as to prejudice them toward him as a manager.

In selecting assistants it may be necessary to look for aptitudes quite different from those required of the principal. The assistant may be expected to administer the daily affairs of the organization while the principal is engaged in planning or outside relations. Or the assistant may carry out certain specific responsibilities which cannot be delegated elsewhere. Again, the assistant might have certain interdepartmental relationships which are most effectively executed at a secondary level.

Conclusion

The use of assistants in business organization will depend upon the practices of top management, the nature of the activity, and responsibilities of the unit. When the position is founded on real need, the assistant can make a substantial contribution to efficient, economical operation. Otherwise the assistant position is an unjustifiable extravagance. It is for management to identify the conditions and determine the requirements of each individual case.

5. STAFFING

Staffing as used in this chapter means all aspects of establishing and maintaining an effective work force. Staffing is a requirement of management wherever a supervisory relationship exists. It will be considered in five parts: selection, development and training, position classification system, working conditions, and performance appraisal.

SELECTION

The extent to which people are matched properly to positions will determine how well an enterprise uses its human resources. Present selective processes leave much to be desired. There are two major reasons for the shortcomings of existing selection methods: *First,* techniques for identifying aptitudes, interests, abilities, personality patterns, and motivation are still imperfect. *Second,* we have not yet discovered the qualities and combinations of qualities which make for success in particular jobs.

If we are to identify the factors of success—either in the individual or in the job—we must redefine our view of success. A more useful concept than the one normally associated with merely "getting ahead" would view the successful individual as one who has found the greatest

means of individual expression and who has contributed the fullest measure of himself in whatever capacity he may be serving. Success in this light cannot be appraised by organization level, social position, or dollars in the pay check. The successful individual may be a shipping clerk, a department manager, or a vice-president. And the organization should be as interested in the proper selection of one as another. Each position has its own unique place in the enterprise and its own personality and aptitude requirements. Social poise and easy personal relationships, for instance, may be essential to a manager's success, but they probably have little or no bearing on the research chemist's.

Effective selection and placement demand that we examine both requirements of the individual and requirements of the position. Behind these two considerations is the overriding problem of availability of candidates, for a sufficient source of manpower is fundamental to successful selection.

Requirements of the Individual

In selecting an individual for a job, we seek to determine if he fulfills the requirements of that job by appraising his qualifications through interviews, situational appraisal, and tests.

Interviewing. The skillful interviewer, guided by all available information about the candidate and a thorough knowledge of the job (and of the people with whom the successful applicant will be associated) can discover a great deal about an individual's potential performance. The counsel of a professional here is useful, for the accurate interpretation of interview reactions can be a very complex matter.

A novel approach in interview selection was employed by Admiral H. G. Rickover in his search for people to participate in building the first atomic-powered submarine. Rickover realized that his assignment required revolutionary techniques and that he must find men capable of original thinking. His biggest problem was to identify people with ability to meet old problems in a new way. He sought to discover such people by asking candidates how they might conduct themselves in highly unusual situations—usually quite unrelated to the building of

submarines. He found that their responses to unexpected and novel questions gave him clues to their creativity.

In the more typical situation the position's requirements are fairly well known, and the primary problem is to discover whether a particular individual fulfills those requirements. One of the most difficult situations encountered here is the barrier of the spoken word. Whether the applicant is highly verbal or highly reticent will have a profound effect on the impression he makes upon the interviewer, particularly the uninitiated. Even the most seasoned personnel men will be confounded by the communication—or lack of it—between applicant and interviewer. At best, the job interview is a tense situation and provides little or no opportunity to see the individual in the setting where he will be expected to perform. The poised and easy-talking individual who appears confident and capable may be demonstrating nothing more than a capability in conversation. Likewise, the ill-at-ease and hesitant individual may be concealing a native capacity for great performance. The difficulties inherent in selection through interview have led many companies to employ multiple appraisals in which several people evaluate the same individual, and thus a more balanced opinion is obtained. Such multiple interviews are particularly useful when the position requires association across a wide range of the enterprise.

Situational Appraisal. During World War II, candidates for the Office of Strategic Services (behind-the-lines intelligence agents) were intensively screened for the rigors of espionage work. Candidates were observed for three days in several ingeniously conceived situations, including a simulated "third degree" interrogation. Candidates' performance in these fabricated situations provided OSS with considerable practical evidence on which to base an evaluation, with the result that failures among selected candidates were remarkably few.

The potentiality of such a technique for selecting business personnel is enormous, but it is as yet relatively unexplored. Here, too, professional counsel would be helpful.

Testing. Tests of interest, ability, achievement, and personality provide one means for learning about an individual's qualifications for a particular job. Tests should be used, however, within certain limitations:

First, there are limitations on the accuracy of test results stemming from the confinements of the testing medium and from temporary or permanent conditions in the individual being tested that prevent an accurate reflection of the individual's qualifications.

Second, the interpretation of test results is a job for professionals, but even experts disagree on the significance of test results.

Finally, there are some intangibles for which tests are probably inadequate: the way an individual "wears" over long association, the degree of his motivation, his willingness to perform, and the amount of his energy. An executive who had built a very successful machinery company speculated on his chances of getting a job in his company under modern conditions. "I never would have made it past these tests," he predicted. Whether he would or not, the point is that tests merely provide the clues, and some characteristics not measurable by tests (as they exist today) may be more significant than those which can be measured.

Applied with these limitations in mind, however, testing can be a valuable aid in the selection process. Tests are a most effective—and economical—medium for identifying many characteristics critical in job placement. Certain conditions—particularly interest and achievement—can be readily identified by tests. Others—personality or ability —cannot be so easily discovered. The value of tests in selection depends upon the skill with which they are applied and interpreted, the appropriateness of the test, the jobs for which they are used, and the number of people being tested.

Requirements of the Position

Each position, of course, has its own special requirements. The manner in which any job is performed will depend greatly upon the individual occupying it. But the organization has certain tasks to be performed, and these tasks provide a measure against which to establish selection standards.

The responsibilities of technical, professional, and nonsupervisory positions can be established within relatively certain limits. The specific duties or functions of management positions, on the other hand, are not so easily determined. A manager may or may not be a "working

supervisor"; that is, he may or may not perform some of the same duties which his subordinates perform. If the position is pure management (that is, if the manager does not perform the same tasks as his subordinates), a large portion of the position's responsibilities will probably be found in the functions common to all supervisory positions as presented in Part 2 below. Where the manager's duties are largely in the supervisory category, the position should be filled on the basis of the candidate's understanding and appreciation of management, not of his ability to perform the same tasks as his subordinates.

Special Problems in Selection

Over-hiring or *under-hiring* results from failure to establish proper job standards or from failure to recognize individual talents. Whether people are placed on jobs beneath their ability or beyond it, the result is the same: improper use of human abilities.

Two types of problems are presented by *seniority rules* which favor older employees: (1) retention of older workers on jobs beyond their endurance, and (2) preference for older workers in selection for advanced positions. A company owes an obligation to older employees, but when their retention—particularly in administrative positions—results in sedentary management, the organization's welfare—and theirs, too—is better served by placing them in less rigorous positions or by retiring them in advance of the normal age. Selecting personnel for advanced supervisory positions on the basis of seniority alone is folly in any organization. The basic criteria should always be: what standards of performance and what individual qualifications are needed to get a specific job done? Seniority rules are desirable only when this objective can be attained. At the same time, of course, rigid adherence to this principle of "ideal" selection should not preclude the placement of individuals in positions which compel them to extend their talents toward new horizons. In general, such stretching of capacity is most effective when the step in job change is not too large.

The concept of *promotion from within versus outside recruitment* is another stumbling block in personnel selection. Every effort should be made to fill a position from within the organization. In some unusual cases it may even be preferable to adjust the responsibilities of a posi-

tion to suit available personnel. But such a practice is fraught with particular dangers: whenever you lower standards to suit a specific individual, substandard performance is being underwritten. Where a position is of sufficient importance to warrant it and when there is no one in the organization to fill it, policies of "promotion from within" should be modified to permit outside recruitment. In addition to these considerations some weight should be given to the value of bringing in "new blood" and getting fresh points of view from the outside.

The practice of *promoting technical experts to management positions* is one of the most serious of all selection problems. In a well-planned personnel program, managers are chosen on the basis of management qualifications, not on the basis of some other type of ability.

Management is a separate and distinct activity, much like engineering, medicine, or salesmanship. When a person becomes a manager (we shall define a "manager" here as a person who directs the activities of other people), he is faced with problems different from any he encountered as a nonmanager. This does not mean that nonmanagers have no occasion to plan, execute, or conduct any of the activities normally associated with management, but these elements are management's *primary* responsibility. Also, the manager may perform some of the same tasks as the nonmanagers associated with him, but when he does this, he is not performing management functions.

The line of promotion for most positions in organizations today is a supervisory job, and if an employee wishes to improve himself, he usually must leave his own specialty and attempt to become a specialist in management. This frustrates a large number of employees, since by mathematical odds they can never become managers. It also weakens the quality of supervision. The technician is "rewarded" by an appointment to management, an activity for which he often has no training and, in many cases, no inclination. Competence in another specialty is, of course, no barrier to management. Indeed, most outstanding managers have been technicians in other fields. But the successful engineer is not automatically a good manager any more than a successful salesman is automatically a good chemist. Managers should be selected for demonstrated managerial ability or aptitude, not for achievement in another specialty.

Management skills are vital, but an organization does not live by management alone. Some management positions may contribute more than other positions, and, if so, this should be fully recognized. But some subordinate positions may be of greater value than the supervisory ones. The administration of hospitals and some research organizations recognize this possibility.

Proficiency in a specialty should not be lost through an unbalanced view of it, nor should the nonmanagement specialist be penalized for remaining with his specialty. Each specialist should be rewarded in income and status according to his contribution to the enterprise, and he should be encouraged to remain in his own specialty if he so desires.

The other side of this coin is that we have concentrated on developing other specialties and neglected the specialization of management. We are giving increased attention to management development, but most development programs consist of rotational assignments among other specialties. Rotation is presumed to make "generalists" by exposing prospective managers to a variety of work. While variety is valuable, the type of rotation usually employed—transferring the candidate from one department to another—assumes that knowledge of activities is all-important.

True, the more activities a manager knows, the better for him, but he cannot—and need not—have a detailed knowledge of all activities. Development programs should concentrate on acquiring management skills and arranging rotations for varieties of management, not just for varieties of activity. They should also be supplemented by adaptable programs of formal training.

Finding Leaders. Someone has suggested that the search for future leaders ought to start with appraising the ideas of young men. These ideas would be classified as to whether they are behind their time, in tune with it, or ahead of it. Future leaders would then be selected from among those young men whose ideas are ahead of their times so that when they reach leadership positions, they will be at least current with their times. Successful leaders seem to have the quality of knowing where they are going and a firm resolution to get there. They are not easily dissuaded from their course, but the suggestion of locating forward-thinking young men recognizes that a fundamental re-

quirement of leadership is tolerance of change and receptiveness to new direction. It is the receptive mind—the one which is willing to abandon old institutions, ideas, and customs when shown that they impede the fulfillment of man's destiny—that provides the creative force in human organization. Management requires the quality of mind which is firm in the knowledge of the past and resolute in its quest for more perfect expression of man's fulfillment.

Selecting Supervisors. Supervisory qualifications will vary with the type of supervision entailed. Where subordinates' work must be closely directed, the supervisor should know more or less of the details of their tasks, preferably through some prior experience of his own. This type of supervision may require close adherence to schedule and work standards. The most effective personality here may very well be the orderly and systematic person. In other cases, where performance requires the exercise of initiative or the generation of ideas, the supervisor's primary job may be to stimulate group effort through building loyalty to the group and through developing a creative environment. The most successful supervisor here would probably be the warm, outgoing, friendly personality. In still other cases—particularly at top-management levels—the supervisor would coordinate and balance the activities of major segments and would integrate them into a company-wide effort but would exercise relatively little supervision over specific tasks. The loyalty and performance of management associates would presumably be clearly established in these cases; thus the supervisor's responsibilities for such matters would be less critical. The success of the supervisor here rests upon analytical, creative, and innovative patterns. In any event, in the supervisor—perhaps more than in any other position—we are looking for the individual who does not fear failure. He realizes that he will meet failure many times, and he will know how to turn it to his advantage.[1] "To try and fail is at least to learn; to fail to try is to suffer the inestimable loss of what might have been."

There has been much talk in recent years about "developing" people for more creative management, but if we are to achieve the full realiza-

[1] Chester I. Barnard, *The Functions of the Executive,* Harvard University Press, Cambridge, Mass., 1940, from the dedication.

tion of individual talents to which such developments aspire, we must enlarge our concept of supervisory management. We must seek as supervisors people who possess a high measure of maturity and stability—both personalitywise and jobwise. We must deemphasize the supervisory approach which conceives of the supervisor's main responsibility as seeking out his superior's wishes and concentrating his energies on their gratification. In such an approach the supervisor looks upon his subordinates as a means to satisfy his ambitions; in short, he uses them to make himself "look good." This kind of "looking upward" supervision results in the insulation of subordinates and the decline of work performance. The capable subordinate is looked upon as a "threat," and this in turn leads to turmoil and "knifing" among subordinates. Under these circumstances, the subordinate realizes that his supervisor will not support him at the expense of disfavor from the supervisor's superiors and that he will get "sold down the river" if that seems necessary to the supervisor. In such an atmosphere, apprehension smoulders into fear, and resentment replaces confidence. In summary, this approach to management is divisive rather than cohesive, diverting effort from the work at hand.

Where supervisors are selected on the basis of maturity, emotional balance, and personal security, this "exploitive" philosophy is replaced with one where the supervisor looks upon his subordinates as personalities for whom he shares a responsibility to provide a satisfying job opportunity. He attempts to understand his subordinates and to know their strengths and weaknesses. He seeks out opportunities for expression of their capabilities, and he fulfills his responsibility to his superiors by providing the most favorable climate for productive effort. He regards the promotion of his subordinates as a tribute to his leadership, not as a blow to the smooth running of his organization. He is concerned with the welfare of the total organization, not with a miserly "hiding" of talent.

DEVELOPMENT AND TRAINING

> . . . the development of executives, both in-service and pre-service, has to become more bold, more generalized, more statesmanlike, more

philosophically mature, more psychologically valid, more morally sensitive, and more selective of men who at once have superior intellectual breadth and grasp, and also some warmth of affectional feeling for their fellow men.[2]

Management and the study of management are not unlike the study and practice of art. The student of art may observe artists in action and may learn that the mixing of blue and yellow pigments makes green or that a certain type of brush stroke creates the illusion of depth. He can employ this knowledge in his own practice and can thus avoid the waste of time in learning by trial and error. By studying what other artists have learned about color, composition, or shading, the aspiring artist facilitates his pursuit of the art. This study is as it should be. But the student's most important step will come when he picks up a brush and starts to paint. He will translate his training into skill only as he gets the "feel" of the brush, the paint, and canvas. And the product of his endeavor will differ from that of every other artist, because in this creative endeavor, he is expressing his own personality. As he practices he will continue to study, for one day he may discover that some new alchemy has made possible a perfect reproduction of the moonlight's glow.

Management deals with a delicate blending of the most intricate of all alchemies—the human personality—into creative endeavor and with stimulating and directing the maximum expression of that personality into desired work performance. There may be no inscrutable laws of human association, but man has for centuries had available to him the great principles of human relations which are the heart of the administrative process. The world's great teachers and philosophers, from Moses, Confucius, and Jesus to Russell, Gandhi, and Schweitzer in our own time, have shown the way to creative human relationships, and these teachings remain as a great reservoir for the guidance of all men, including the leaders and managers of our business institutions.

Development programs cannot be isolated from the main stream of the enterprise. They are not products to be bought and stored in the warehouse of executive witchcraft, for they are inseparably related

[2] Ordway Tead, "Business Leadership in the Decade Ahead," *Advanced Management*, p. 9, February, 1955.

to the organizations on which they are built. An effective development program requires a total approach to sound management: (1) a well-planned organization with accurately developed functional assignments; (2) systematic and clearly defined procedures and standard-practice regulations; (3) a compensation and promotion system which permits advancement with adequate compensation and recognition; (4) a management climate which provides the atmosphere for maximum individual expression (letting individuals exercise their judgments, even at the cost of a few mistakes, for example); (5) identification of qualities which make for success, and discovery and cultivation of these qualities in individuals; (6) recognition that behavior patterns are uniquely personal and that no two individuals will—or should—perform the same task in the same way; (7) a recognition that individual development—either good or bad—is going on all the time and that this dynamic change can be directed to constructive ends.

Development must recognize the *whole* man—his life away from the job as well as on it. Management has no license to intrude upon employees' private lives, but it must be conscious of the job's impact on the individual and must be prepared to help employees resolve problems which are affected by the business situation—if the employees want this help!

The employee in advanced positions may or may not have qualities which distinguish him from others. While it is true that the outstanding person will make his own opportunity, it is also true that occupational progress is a matter of opportunity. Human institutions are filled with capable people frustrated by traditional organization patterns and poor management. If human organization is a machine into which people are ground to fit, it can at least employ a whetstone instead of a pulverizer. The aim of all development programs should be to bring out the best in each individual, and this can be achieved only by watching for the moment—perhaps a fleeting one—when the individual is ready for greater responsibilities. Personalities do change, and talents will atrophy if left unused. We must look beyond immediate performance for latent abilities. Many individuals who have displayed no great managerial ability have, when actually confronted with management responsibilities, shown unusual capacity. The oppo-

site has also happened, of course, when people with apparent abilities have buckled under the stress of responsibility.

To develop successful managers, we must do two things: *first,* broaden the opportunity within all specialties so that the technician will not be compelled to move into management in order to obtain his just rewards; and, *second,* develop greater competence in the management specialty. We must also abandon the notion that only the men at the top of the organization ladder are "successful." The successful individual should be looked upon as the one who receives satisfaction from his work and contributes the fullest measure of himself wherever he may serve.

In the search for management yardsticks we have depended heavily on formulas. A manager, we say, must have character, must be reliable, must "understand" others, must "think straight," must be a "go-getter," must have initiative, and must possess all manner of other virtues. These declarations are a little like Home and Motherhood: We are all for them and against Sin. But they do not tell us how the manager gets the way he is or how these qualities aid him. It is about as helpful to tell a manager that he must have initiative as it is to tell a woman that she must be beautiful: both are worthy objectives, but they shed little light on how to do the job. There is a spark of fire in the leader that stimulates others to give of themselves in a common effort, but as yet we have identified neither the qualities that create this spark nor methods for developing them.

Some personalities seem better able than others to develop the broad perspective required in creative management. If we could discover how the successful manager thinks and why he acts the way he does, we should be closer to understanding the creative drive that gives life to the management process. We must also recognize that many different types of personalities and many different types of training and experience can produce good managers and that no two managers will express themselves in the same way. We would do well to look at the manager's conduct as a guide. For instance, has he taken some highly capable subordinate and provided him with opportunities to demonstrate his capacities, or has he supported him in controversy on unpopular issues?

The building of self-confidence is an important phase in development. Position responsibilities should be within—but always pushing—the limits of individual abilities. Self-confidence derived from a job well done develops an attitude which may contribute more to future success than skill acquired from the job itself.[3] ". . . the first step in self-development is *not* the acquisition of new ideas, new attitudes and new skills. Rather it begins with a careful examination of the presently held ideas, attitudes, and skills in order that the individual may gain insight into *why* he believes . . . feels . . . and behaves as he does."

In the final analysis, the individual's self-development determines his progress. Only when a man knows himself and builds upon his own values, will he find full satisfaction. He must develop what he is and what he wants, not what someone else says he should want. He must build a pattern of behavior within his own set of values, and he must seek out occupations which give expression to those values. If his yearning for a particular position forces upon him a despised pattern of behavior, he compounds his misery. For once the aspired position is achieved, the hated behavior becomes mandatory. Life continues on a whirl of fantasy, and the next position beyond requires even greater sacrifice. Once the treadmill is started, it cannot be stopped, and the faster it goes, the greater the separation between "position" and true satisfaction. One man's treadmill is another man's race. What counts is for each individual to determine which is his treadmill and which is his race.

Development may be considered from two points of view: *first,* training to improve performance in an existing position or to prepare for some position in the future; *second,* work performance through challenging occupational assignments. The former is largely an educational process, employing the techniques of education; the latter—in addition to being educational—is largely a matter of how tasks are assigned. The purpose in both cases is to encourage the utmost development of individual capacities.

[3] Chris Argyris, "Executive Development Programs: Some Unresolved Problems," *Journal of Educational Sociology,* September, 1956, p. 25.

The Educational Process in Development

Increasing technology requires that we speed up the tempo of education in engineering, chemistry, and other physical sciences. But it also requires that we expand education in the fundamentals of human relations and the social sciences. The economic, political, and social problems created by technology are still the great unsolved problems of the free enterprise system, and business leaders of the future must be prepared to resolve these problems. We have expanded our economy and increased our technological capacities very largely through education and research. Our human problems have not been given the same attention.

The demands for leadership are forcing us to rethink our traditional approaches. We know very little about how good managers get that way, but we do know that some people have the capacity to manage and others do not. Future progress in management depends upon identifying management know-how and transmitting it to the managers of tomorrow. The individual's basic personality pattern is one factor in leadership, but practices and skills are also important. It has been said that management is both art and scientific practice. The art we can observe and hope to imitate, but the practices we can measure and classify for all to learn.

It is true, as Chester Barnard has said, that the executive is not always able to explain how he makes decisions. If he were to think consciously of each step, the decision might never come. His reactions become habit, just as do the movements of the hand in tying a shoelace. But the progress of management requires that we observe and understand the conduct of outstanding leaders in order that we may build a practice of management from the lessons of their experience and not require successive generations to start anew with trial and error.

Educational development could include: formal teaching through classes, seminars, and special management schools; understudying with selected, experienced people; observation of company operations; activities in professional societies; and individual reading and study.

The Administrative Process in Development

The character of a company's development program is formed by the quality of its general management. If there is a fundamental concern for individual welfare, personal development has a greater chance to flourish. If there is no such concern, elaborate plans and programs will accomplish little.

The administrative process in development entails at least the following elements: (1) determining what positions the enterprise requires, that is, the types of jobs and how many of each (clerks, foremen, managers, etc.); (2) identifying the duties and responsibilities of each of these positions; (3) determining the capacities needed to carry out these duties and responsibilities; (4) identifying individuals with the required capacities; (5) maintaining inventories of available people and positions; (6) establishing schedules of position replacements; (7) developing a system of opportunities for individuals and apprising these individuals of their opportunities and of their obligations for self-development.

Administrative development programs could include: temporary replacements, special assignments, job rotation, transfers, committee memberships, community activities, teaching, conferences and seminars, and public speaking.

POSITION CLASSIFICATION SYSTEM

The purpose of the classification system is to group all positions according to the nature of their functions. It has two aspects: *first,* a uniform framework of position duties and titles; *second,* an equitable salary structure. The duties of a position—not the quality with which they are performed or the individual who performs them at the moment—determine its salary range.

Position classifications should be consistent and uniform throughout the organization, and they should be up to date with the current organization. A sound position structure facilitates intracompany transfers, simplifies recruitment, makes possible greater efficiency of recruitment, and provides a framework for the salary structure.

Position Descriptions

The position description records the requirements necessary for performing a particular job. There should be a separate description for each position in the organization. The description should be consistent with the organization plan, should be related to all other similar jobs, and should, desirably, follow a common format throughout the organization. It could include such items as: (1) functions common to all similar positions (if supervisory); (2) supervision exercised and supervision received; (3) description of duties; (4) standards of performance; (5) relationships with other individuals or organizations, both internal and external; (6) limits of authority. (See suggested form above in Chapter 3.)

Position Evaluation

After all positions have been properly described and related, it is time to evaluate their worth to the company.

The philosophy of management at one time may have been to keep a man "a little hungry" on the theory that fear of economic insecurity would spur productivity. But today it is more generally recognized that fear, in the long term, has a deteriorating effect and that economic security stimulates creativity and increases productivity.

Employee compensation scales should be applied uniformly throughout the organization, with rates being determined by the value of services rendered. The compensation structure has its foundation in the condition of the enterprise, and it must suit the organization's basic characteristics.

In evaluating positions, several principles should be kept in mind: (1) There should be equal pay for equal work. (2) Positions should be rated according to their worth to the company, balanced against the level of competence required to perform the work. (3) Rates should be sufficiently flexible to meet changing conditions. (4) Each position should have a range from minimum to maximum. (5) Rates should conform to the industry and community pattern. (6) Scales should provide adequate room for recognizing special merit. (7) Each individual should know the salary range of his position.

There are several possible systems for position evaluation: (1) the over-all relative ranking where each position is ranked on its over-all responsibilities; (2) the point or factor level where the tasks of each position are analyzed and classified into factors and where these factors are divided into levels with a fixed point value assigned to each level; (3) factor comparison where values for each factor level are determined by the nature of each individual position, not by some fixed value; (4) some combination of the above, usually (2) and (3).

Whatever the system, the aim of position evaluation is an equitable salary structure which places each position in a proper relationship with every other so that, ideally, each position is paid according to its worth to the company. This ideal, of course, will be tempered by the availability of personnel (scarcity of people for an essential position will push its salary scales above the ideal of relative worth), the ease or difficulty of replacement, and the relative simplicity or complexity of the task (an activity—such as clerking in a retail store—may be key to the organization's effort, but the level of skill may still be relatively simple).

WORKING CONDITIONS

By working conditions is meant the total environment—physical, social, and psychological—within which employees conduct their affairs.

Physical working conditions would be governed by: (1) the nature of the enterprise (retail trade, wholesale trade, manufacturing, transportation, etc.); (2) requirements of the job (direct selling to consumers, reflective thinking, machine operations, etc.); (3) safety; (4) what the company can afford.

The admonition, "Man does not live by bread alone," emphasizes the sociological and psychological aspects of working conditions. Once man has satisfied his fundamental physical needs, he strives for something beyond the material rewards of his endeavor. He seeks a personal fulfillment in the realization that he is accepted for what he is and that his efforts account for something.[4] "The major incentives to productivity and efficiency are social and moral rather than financial."

[4] Peter Drucker, *The New Society*, Harper & Brothers, New York, 1949, p. 49.

The oftstated assumption that man is motivated mainly by material reward is open to serious question. Man's most productive motivation is his inherent urge to creative effort. Material rewards are necessary and vital, but something beyond these is required for the extra spark of creative effort. Who can say that the great inventions of the industrial revolution, the world's great works of art and music, the recent discoveries in medicine, or the great developments in the world of ideas would be unknown but for the motivation of material reward?

It is incumbent upon management to provide the proper atmosphere for creative effort. "Fringe" benefits and "morale builders," like company picnics, employee publications, or even pensions and health insurance, do not dispatch management's responsibility. Such "welfare" programs have meaning only within a framework where all members are given opportunity to express their native creativity. Morale-building "programs" without this framework are fruitless.

PERFORMANCE APPRAISAL

The purpose of periodic review and evaluation of individual accomplishment is to assist each individual in the maximum expression of his capacities and to achieve full use of the enterprise's human resources.

Periodic appraisal of individual performance is good for the organization, good for the individual, and good for the supervisor, but such appraisals must be placed in their proper perspective. Performance appraisal is an integral part of the total business process, not a formal program to be dusted off once or twice a year. It is a day-to-day responsibility of all supervisors, and formal rating procedures merely provide a periodic record of this continuous review.

Formal rating programs have two purposes. *First,* they provide a historical record of achievement for comparative appraisals and for future assignments. *Second,* they provide a medium for periodic consultation between supervisor and employee.

The formalized rating procedure in which a supervisor records his appraisal of a subordinate has some inherent weaknesses. In the first place, the historical record is limited by the natural biases of individ-

uals administering the rating procedure, by individual differences among raters with whom any particular employee may be associated over a period of time, and by differences in the work situation. Secondly, in a sound management atmosphere it should not be necessary to coerce the supervisor to discuss the work situation with his subordinates through a mechanical appraisal procedure. Such a crutch may, in fact, convey an unwarranted impression that a supervisor is discharging his development responsibility through a formalized routine.

In spite of these shortcomings, periodic appraisal programs can be constructive. They force management to sit down and think about the progress of its organization and the people in it. Also, they often result in self-appraisal for the supervisor himself.

Also, an effective appraisal program can contribute to better relationships between supervisors and employees. The employee has a specific opportunity to learn what his boss thinks of his performance, what he can do to improve himself, and what he can expect from the future. In addition, the supervisor has a chance to find out what his employees feel about his performance as a supervisor.

Lastly, recorded employee appraisals do provide a source of information for future assignments, for training needs, for evaluating correctness of selection, for locating promising personnel, and for development programs.

The Rating Form

In the early days of rating—and to a certain extent this is still true —appraisal forms employed more or less rigid mathematical scales. The rater was asked, for example, to check the employee's performance on a scale ranging from "excellent," "good," "fair" to "poor," or from one through ten on a numerical scale. A modified form of this general type provided a series of statements from which the rater could choose the ones which most accurately described the individual. The scale-type form made it too easy for the supervisor to check off a series of numbers. There was a tendency, also, for the supervisor to place everyone in the top categories. There has been a trend toward more individuality in ratings with the use of forms which allow the supervisor to describe an individual's performance in his own words.

A critical factor in appraisal is the elements upon which appraisal is to be made. The elements could embrace the specific requirements of the position, they could deal with a predetermined set of objectives, or they could combine the two. In any event, they should be important to the job, related to established standards of performance, understandable to raters, and readily observable by supervisors. They should embrace the full range of the employee's activities (it would be desirable, in fact, for the factors of rating to follow items in the employee's job description) and should not repeat information readily available elsewhere (such as absenteeism).

CASE EXAMPLES

Case I

The company sales force was composed of many types of people with many different backgrounds. Some had broad experience in the company, others had experience in customers' industries, and still others were specialists in certain of the company's products and processes. There was also great variety in the personalities of the salesmen. A few conformed to the stereotype extrovert pattern, but some of the more effective salesmen were far from being extroverts.

The personnel department, in attempting to recruit men with the greatest potential sales capacity, had only the most crude guidelines. To make matters worse, there was no general agreement among sales management as to what it took to be a successful salesman. In an effort to establish some workable standards, a program of sales evaluation was inaugurated. First, all salesmen were appraised by sales management, each salesman being rated by at least two raters and some by as many as eight. Each appraiser was asked to rank each salesman on sales performance and potential for management. When all rankings were consolidated, they showed a remarkably consistent pattern; that is, a salesman ranked high by one tended to be ranked high by all. In short, there seemed to be rather general agreement on the relative capacity of the various salesmen.

The salesmen were then given a battery of aptitude, interest, and personality tests. The scores from these tests showed that the salesmen

who ranked high in management's judgment scored significantly better on several tests than the salesmen who ranked low. The test results gave the personnel department some usable bench marks against which to evaluate applicants and to develop training programs. These guides also aided in the establishment of standards against which to appraise sales performance.

Since inauguration of this program, there has been a marked improvement in the acceptability of personnel's recruiting efforts and a consequent improvement in sales-trainee performance. The total program shows great promise of long-range improvement in sales performance.

Case II

A central personnel department maintained personnel records on key employees in all divisions of the company. From these records they identified potential candidates for positions throughout the company, thus attempting to find the most qualified candidate for advanced positions wherever they occurred. With keysort cards and data-processing equipment, various facts and data about these key members could be tabulated. When Personnel received requests for people, the cards were sorted and a group of names selected. These names were then given to the requisitioning department which could select a few candidates for interview.

After some months' experience with this system, requests for candidates began to decline. The departments complained either that too little information was provided in the tabulations or that too much time was required to evaluate and screen the candidates. The departments felt they could not learn enough from mechanical records about how a candidate would perform in a specific situation. They needed additional "feel" for the candidates' personalities, and they wanted to learn about specific incidents in the candidates' experience for some clue as to what could be expected in the proposed position.

The personnel department, realizing that the interview was the key factor in selection and that every department could not interview every possible candidate, reorganized its staff to provide more personalized information. It established the position of representative to maintain

liaison with the various departments. These representatives were to become personally familiar with the performance and accomplishments of key members in their respective departments. They were to identify the most qualified candidates for specific positions and also to locate appropriate candidates for other departments. The new system is now providing an effective personnel selection and placement program, helping each organization to locate qualified candidates and providing a source of information about the company's total personnel capability.

Case III

The company had an incentive payment plan for production and sales personnel. Incentive awards paid to production personnel were based upon production costs; those paid to sales personnel were based upon relative participation in the available market.

The emphasis on cost reduction in the production department placed great stress on increased volume and on surpassing production schedules. The net result of this emphasis was an increase in quality defects. Customers began to express dissatisfaction with the company's product, and sales resistance increased.

At the same time, the sales department's emphasis on market participation placed great stress on customer preferences with little regard to preferred production schedules. This led to costly adjustments in production runs and to increased production costs.

To overcome the difficulty of each group's giving primary emphasis to its own standards, the incentive criteria were modified. The production incentive formula was changed to include the element of market participation, and the sales incentive formula was changed to include the element of production costs. At the same time, quality defects were included in the calculation of production incentives, and sales-order acceptance was geared to a planned production schedule.

The alteration in production and sales-incentive standards brought about significant changes in conduct. Production workers sought to learn and fulfill the customers' requirements, and sales personnel promoted orders in accordance with the most efficient production schedules. There was a noticeable reduction in quality complaints, and orders for "out of phase" runs were appreciably reduced.

Case IV

The company had several district sales offices, some with as many as thirty salesmen, others with as few as five. The product line was very diversified, covering several hundred items. Some products were highly technical and thus required the specialized attention of a few salesmen. Many district sales managers had been selected from among the most successful salesmen. In some cases these men proved to be effective managers, but this was not always the case.

In one district the star salesman—in fact, one of the two or three top salesmen in the company—proved to be a particularly inept manager. He neglected internal administration and planning and continued to perform as the star salesman. A similar condition existed in four or five of the fifteen district offices. Recognizing the difficulty of demoting managers whose own sales performance remained high, the company added assistant managers in these offices to direct internal administration and planning. It was clear, however, that more fundamental steps were required to resolve the problem of weak management.

The company recognized two requirements: *first,* an effective management training and development program to identify potential management talent and to train candidates for management responsibilities; *second,* a system for recognizing the contribution of salesmen without forcing the better salesmen into management. A plan for management training was developed, and all potential managers were provided opportunities to participate. This plan included short-term assignments of a managerial nature as well as educational programs. Participants' progress was evaluated from time to time, and management as well as participants gained an insight into their management potential.

At the same time, the salesmen's salary structure was revised to provide ample rewards to salesmen, thus encouraging the successful salesman to remain with his profession. The new structure made it possible for a salesman of outstanding achievement to attain levels of compensation equal to the manager's.

The new development program and compensation structure are making it possible for salesmen to evaluate their own management

potential and to place a more realistic perspective on their ambitions. At the same time they are assured of adequate recognition within the ranks of the sales force if they choose to remain there.

Case V

A market research department was a key link in the company's total planning activity. The company sold a great variety of products in several types of markets, serving both industrial organizations and individual consumers. Market research had extensive responsibilities and, by outstanding performance, had gained considerable recognition throughout the organization. The staff was extremely competent, and the members had wide associations throughout the company.

The nature of the department's activities and its contacts with company executives, together with the high qualifications of its staff, brought to the staff members occasional offers of employment from other departments. The market research manager, receiving these inquiries from other departments, could have blocked movements on the assumption that his men had been soliciting or that he could not afford to lose them.

The manager, however, recognized that his staff had unusual opportunities to know the conditions and problems in the total organization and that they would be valuable to other departments. In addition, the individuals themselves, of course, would benefit from the advancement. The manager wisely recognized that a history of advancement from his staff would materially increase its attraction for able men. The manager knew that he could not provide advancement opportunities within his own organization for enough young men to retain their continuing interest and that his organization would benefit from this type of movement.

The manager in these circumstances honored the requests for transfer. By doing so, he strengthened his organization and improved the caliber of his service by encouraging the utmost opportunities for his staff. Also, not least in importance, the manager enjoyed the loyalty of former staff members throughout the company. (It is worthy of note that the manager has since become a vice-president.)

Case VI

The company had a conventional employee-appraisal scheme with periodic reviews of performance. The factors evaluated were largely behavioral, heavily weighted with objective considerations of morale, attitude, motivation, and the like. After several years' experience, the company had a large volume of recorded data about many of its key employees, but this data was not being put to any useful purpose. It was heavily weighted with personality characteristics and gave too little information about actual performance. Its purpose was presumably to assist in the development of employees, but the mechanical appraisal method failed to yield the type of information needed.

A new system was instituted to provide a more realistic evaluation of performance and thus a more effective guide for development. The new plan was based upon job performance, and the evaluation criteria were built around the duties of each position and the attainment of certain work objectives.

The duties of each position were recorded, with particular attention to specific functions against which objective measurements could be made. Objectives of performance were then established for each position based upon these functions. These objectives were aimed toward a substantial improvement in accomplishment and were established within reasonably attainable limits for periods of about six months. They were identified in specific terms and agreed upon by the employee. Experience showed, incidentally, that the employee nearly always proposed higher goals for himself than the supervisor felt was reasonable.

The company is now accumulating valuable information about employee performance, with performance incidents to support evaluations. Members of the organization are beginning to look to this information as a reliable source for selection and as a guide to individual development programs.

6. EXECUTING

Execution is the integration and direction of resources in performing the primary task of an enterprise or its units. That task may be to provide a service or a product or some more intangible gratification. But regardless of the nature of the commodity or its consumer, the tasks of the enterprise require cohesion of effort. Execution is this cohesive force.

Although we still know precious little of what makes for effective execution, some methods seem to have a more positive effect on performance than others. This chapter is concerned with exploring these methods. In the following discussion, "manager" will be used synonymously with "supervisor."

The supervisor in a small organization may perform many of the same tasks as the people he is supervising. But he has additional obligations as a supervisor, and it is these additional responsibilities which make his position unique. He alone is responsible for coordinating his unit's total effort. It is not always necessary for him to be able to do the same work that others in his organization do, but he must know what work is necessary and how to make sure that it is done.

The highly personal nature of management makes difficult the establishment of absolute rules, but there are certain general conditions which seem particularly pertinent to execution. These conditions

will be considered in three parts: first, the manager's concept of the management process; second, the devices of execution: delegating, directing and coordinating, communicating, and motivating; and third, tools of execution.

THE MANAGER'S CONCEPT

Every manager has certain principles upon which he acts—even if they are only trial and error. These principles we might call his "concept," or his "philosophy."

The effective manager identifies himself as a part of his group, not someone apart from it. Crawford H. Greenewalt, president of E. I. du Pont de Nemours, states it this way,[1] "... the more effective he [the manager] is as an executive, the more his own identity and personality blend into the background of his organization."

In contrast to Mr. Greenewalt's ideal is the manager who went on a business trip with one of his subordinate supervisors and one of the supervisor's assistants. In making arrangements for this trip, the manager obtained a Pullman bedroom for himself, a smaller compartment for the supervisor, and an upper berth for the assistant. At the hotel he obtained a $20 suite for himself, a $13 room for the supervisor, and an $8 room for the assistant. Such callous disregard for human dignity and obsession with status were amply rewarded a few years later when the manager found himself without the support of his people in a critical period of his career. He was bewildered by his associates' unenthusiastic acceptance of his leadership.

The democratic atmosphere of which Greenewalt speaks contrasts sharply with the autocratic approach practiced by many managers today. Argyris points out that in an autocratic system:[2] (1) Subordinates are kept in a dependency relationship. (2) The leader tends to define the group's goals. (3) The leader tends to give most of the direction. (4) The leader reveals nothing of his own personal feeling but expects his subordinates to reveal theirs. (5) The leader keeps his subordinates unaware of their future prospects. (6) The group tends

[1] "The Management Profession," *Advanced Management*, p. 6, December, 1955.
[2] Chris Argyris, *Executive Leadership*, Harper & Brothers, New York, 1953, p. 126.

to be productive, but at the same time it is full of tensions. (7) Group members tend to resent fellow workers and express tension and resentment toward each other and toward the leader. (8) The group's cohesiveness and efficiency decrease when the leader leaves the situation. (9) There is a tendency for scapegoats to appear.

The competent manager readily accepts valid new concepts developed by others. His mind is wide open. This ready acceptance prompts the formation of more new ideas and stimulates people to carry them into practice. He is quick to link any sort of major change—scientific, economic, and social—to his present or future job, even when the effect seems to be remote.

The successful manager takes a broader viewpoint toward his work than that required to discharge his immediate functions. The connection between company objectives and intimate department affairs may not be apparent to many; it is apparent to the alert manager. It often causes him to set aside short-range benefits or advantages, real or fancied, in favor of longer-range advantages.

Finally, the productive manager takes cognizance of the fact that no two people want to be directed in exactly the same way, that no two people will go about their tasks in quite the same way. From this we can conclude that it is unwise to specify rigid methods. For one thing, the manager hasn't the time. For another, his prescription may obscure the development of a better method.

DEVICES OF EXECUTION

The devices of execution can be classified or grouped in any number of ways. For purposes of this discussion, the devices will be identified as delegating, directing and coordinating, communicating, and motivating. Underlying all these is the decision-making process, for it is with the decision and the power to make decisions that the manager rises or falls. The American Presidency is probably as intricate an executive job as will be found in any organization anywhere. Students of the Presidency almost universally agree that the outstanding Presidents are those with the capacity to perceive a course and take it. Whether history will show Harry Truman to be a great President remains to be seen, but friend and foe alike concede this much to his

administration: he had the capacity to make the important decisions. Winston Churchill, who seems to hold a high opinion of Truman's Presidency, has this to say about the American President,[3] "I . . . was impressed with his gay, precise, sparkling manner and *obvious power of decision.*" (Italics added.)

Delegating

The process of delegation can be considered in seven steps: first, developing a personal discipline for supervision: this requires a faith in the ability of subordinates and a tolerance of human mistakes; second, deciding what to delegate: appraising capacities of the people and the needs of the job; third, defining authority and responsibility: determining how much authority and responsibility each position requires; fourth, stimulating performance: sharing participation in decisions and encouraging exercise of individual initiative; fifth, giving subordinates the opportunity to exercise their authorities; sixth, requiring completed work and encouraging subordinates to complete assignments before reporting to the supervisor; seventh, developing performance standards and measuring performance against those standards.

First, the personal discipline of supervision. The discipline of the supervisor is different from the discipline of any other position. When a person becomes a supervisor over his former job, he faces a problem which he never faced as a nonmanager: he must accept the fact that someone else is capable of filling his shoes—and perhaps even of doing a better job at it. Giving up the responsibilities of his previous position is an absolute necessity not only for his success as a manager but for the success of the person who replaced him. He must discipline himself to tolerate mistakes which he himself might not have made. Most important of all, he must recognize that another's work patterns may be different from his own; in fact, he should be alert to discovering what others' patterns are and avoiding interference with their normal exercise.

When his supervisory responsibility does not include his former job

[3] Winston S. Churchill, *Triumph and Tragedy,* Houghton Mifflin Company, Boston, 1953, p. 630.

or includes more than it, his problem is even more difficult, for he must learn to rely on other people for the judgments governing his decisions. He cannot know all the facts himself, and the realization that he is at the mercy of his subordinates' wisdom is a sobering and humbling condition—and one absolutely necessary to effective management.

Subordinates must be encouraged to exercise initiative by being rewarded for such initiative. They should receive full recognition for their own ideas and should be encouraged to "get into the open" in carrying out their ideas. Andrew Carnegie's success has been attributed to his practice of selecting people better than himself and of giving them opportunity to show it.

Second, determining what to delegate. The nature of an activity will determine what responsibilities can be delegated. Three types of situations arise here. First, where policies are clearly established, the subordinate should be free to act independently. Second, where policies are clearly established but where action may affect other areas of the business or may lead to changes in the policy, subordinates should be free to act, keeping the supervisor informed of action taken. Third, where no policies or precedents exist, the supervisor should be consulted before action is taken.

Delegation of authority should permit the making of decisions as close as possible to the locale of action. Criteria for determining this level are as follows: Can the decision be made without opposing established, company-wide policies or without compelling a change in policies or practices in other departments? Can the action be carried out without requiring concurrent action in other segments of the business? Can the action be carried out without changing the company's traditional external relationships? Is all necessary information readily available at the point where the decision is to be made? Will the making of the decision effect greater economies than if the decision were made elsewhere? Do the individual's judgment and capacity match the demands of the job? Will individual experience gained from the exercise of judgment outweigh any possible loss that may result from an inexperienced judgment?

Delegation of authority adds strength to the entire structure. When

members of an organization know that their supervisor has authority to act, they look to him for leadership. Such supervisory strength expedites the organization's operations. When members learn that their supervisor's authority is limited, they look elsewhere. Such supervision impedes operations.

The *third* step in delegation—defining authority and responsibility—was described in Chapter 3. The *fourth* step—stimulating performance—entails the atmosphere of management as discussed in The Manager's Concept above and the sections on Directing and Coordinating, Communicating, and Motivating below. The *fifth* and *sixth* steps—providing opportunities for subordinates and encouraging completed assignments—deal with the manner of staffing the organization as discussed in Chapter 4. The *seventh* step—establishing controls—will be discussed in Chapter 7.

An organization employing effective delegation would be characterized by:

1. Members who have a clear understanding of their duties and authorities
2. Members who have the information and facilities they need to accomplish their tasks
3. Supervisors who concentrate on the results of subordinates' activities rather than on the details of how they get these results
4. An easy flow of communication throughout the entire organization
5. A realization among subordinates that an outstanding performance will be recognized
6. A pace in subordinates' activity which is at least as great as the supervisor's
7. Subordinates who are kept informed on progress of work for which they share responsibility
8. Subordinates who are encouraged to speak their minds freely and without apprehension of censure
9. Supervisors who consult the subordinates most familiar with a problem upon what action must be taken
10. Contacts with other organization units which are based upon needs of the task, not upon position or status

11. Operating decisions which are made at the point of action
12. Supervisors who have well-established and functioning controls
13. Members who are not expected to have all the details about their subordinates' activities in mind at all times
14. Job instructions which are given by immediate supervisors—not by superiors two or more levels removed
15. Encouragement of innovation and originality through sympathetic reception of suggestions and new ideas

The effectiveness of delegation depends upon the capacity and interest of both the delegator and the delegatees. William Newman suggests several reasons for supervisors' reluctance to delegate: [4] (1) the "I-can-do-it-better-myself" fallacy; (2) lack of ability to direct; (3) lack of confidence in subordinates; (4) absence of scientific controls which give warning of impending difficulties; (5) temperamental aversion to taking a chance. Subordinates, on the other hand, may make delegation impossible by avoiding responsibilities: (1) It may be easier to ask the boss than to decide for themselves. (2) They may fear criticism. (3) They may lack the necessary information and resources to do a good job. (4) They may have more work than they can do. (5) They may lack self-confidence. (6) Positive incentives may be inadequate.

Delegation is usually looked upon as a supervisor's responsibility. But as Newman points out, the subordinate's obligations are equally important, for he has a vital stake in delegation. It provides him with opportunity for greater self-expression, it permits him to use his initiative, and it provides him an avenue for advancement. But if he is to justify the delegation given him, the delegatee must keep his superior informed of any conditions which affect the superior's responsibility or the superior-subordinate relationship, and he must be prepared to assume the accountability for responsibilities assigned him.

Directing and Coordinating

To direct and coordinate is to bring the activities of individuals or groups into focus upon immediate tasks. Decision making is a basic

[4] "Overcoming Obstacles to Effective Delegation," *Management Review*, American Management Association, pp. 36–41, January, 1956.

ingredient in this phase of execution. Decision making embraces at least these steps: (1) identifying the problem or opportunity; (2) evaluating the situation within a framework of company policies, individual responsibilities, and the opportunity presented; (3) analyzing available facts, opinions, and precedent; (4) appraising allowable margin of error; (5) considering possible alternative solutions; (6) considering the psychological and emotional factors in the situation; (7) deciding what purpose the decision will serve; (8) accepting responsibility for consequences of the decision; (9) making the decision and seeing it through.

Someone has observed that there are five types of decision makers. One is creative, the others are not. The *receptive* type relies heavily on what he is told to do and makes decisions only when he can clearly predict his superiors' approval. The *exploitive* type utilizes decisions as a device to take over from others and to manipulate others for his own ends. The *hoarding* type makes decisions sparingly and only when every margin of chance is eliminated. The *marketing* type adapts to the expedient course and takes whatever course he believes may be approved; he holds to no basic convictions, and he looks upon the management process as a buying and selling venture. The *productive* type uses the decision-making process to realize the utmost potentialities of himself, of other members, and of his organization.

Organization charts and position descriptions help outline in a broad way the things required of departments and people. Even with up-to-the-minute charts and well-written position descriptions, people can be confused about what they are supposed to do or for whom they are working.

Confusions of this sort can be alleviated by these means:

When a task is assigned to one person, it should not also be assigned to another.

When parts of one task are assigned to several people, each should be told why, and each should know what the others are doing and why each assignment was made. They should be told specifically who is to coordinate their efforts.

Tasks should be assigned to persons most qualified to perform them.

Supervisors should be charged with directing only the number of people they can reasonably control.

Arrange supervisory relations so that no employee has more than one boss. If an employee is to be assigned temporarily to a different boss, everyone concerned should be clear about the reasons. When the temporary period is over, the dual supervision should be eliminated.

Give people enough authority to do whatever is required to complete the assigned tasks—then let them go ahead without interference.

When exceptions to the foregoing are required—and they will be—every interested employee should know and understand the reasons.

If a task is clearly assigned, the member assumes the responsibility of getting it done. Some responsibilities are those of cooperation, friendliness, deportment, promptness, and willingness to pull a fair share of the load. Others are to represent the department in contacts with other departments and to consult with the supervisor when trouble is encountered or when clarification is needed. These are responsibilities which are rarely written into position descriptions. Nevertheless, they should be made clear, and members should be aware of them.

With the assignment of each task and each supervisory position, the employee must be empowered to get the information he needs and to direct those who are to help with the work. He must have the right to use his judgment. The limits set on this authority will depend on how judiciously he will use it. It is better to err on the liberal side than to hamper him with restrictions.

Participation. When an employee receives a clipped-off order with no explanation or background information, he is not participating. Yet people normally desire to participate, and they prefer the kind of leadership that lets them do so. To advise people of matters that affect their responsibilities, to consult with them, and to get their wholehearted participation are marks of a good manager. He should give a clear picture of what he wants done and then let the employee devise his own ways and means of doing it—the manager thus saves his own time and stimulates the man to use his own ability.

Pressure. Undue pressure hampers more than it helps. Individuals react differently to pressure, and the use of pressure when necessary

should be tempered by the situation and the individual. Overscheduling can cause pressure and hurt the quality of work. Undue pressure can be avoided by careful planning which arises out of understanding the nature of the work to be done and of the people who are to do it. It is doubtful that pressure gains more total work in the long run.

Freedom from Fear. When managers give responsibilities to people and then interfere, the bright prospect of the position changes to gloom. The manager who creates an atmosphere of fear risks paralyzing creative ability and initiative, which in turn curtails productivity. When managers make decisions and then reverse them abruptly, members learn to fear the decisions themselves, and doubly so the reversals. They suspect the motives of managers who bypass them. Freedom from hidden fears can be achieved by using care in making decisions so they need not be reversed, by backing up the people who are carrying out directions, by sticking to established responsibilities, and by remembering the people to whom tasks have been assigned and respecting the responsibilities given.

Communicating

"Communication" may be described as the transmission and receipt (including comprehension) of thought, instructions, or information. The increasing emphasis on communication in recent years reflects a need for unfettered human relationships and signifies a growing awareness that easy human exchange is a true test of management.

The increasing size and complexity of business have complicated communication, but poor communication results more from a misconception of the management process than from organization size alone. Efforts to resolve the inadequacies of communication through "programs" or "techniques" without an attempt to correct the underlying conditions are doomed to failure.

A prime requisite of communication is availability, which means simply contact with one another in an atmosphere of mutual respect and consideration. In large organizations it is impossible for all individuals to have access to all others, but such access is really not essential, and even in very small organizations it is not practiced. The important thing is for each member to have sufficient access to the necessary

people. Organization size need not be a handicap in this respect. (Size in fact is more often an excuse than a reason.)

Good communication is a result of sound management, not a cause of it. It requires a management atmosphere in which the individual is respected for what he is and in which he is encouraged—indeed, expected—to contribute his best. Face-to-face contact itself does not guarantee good communication. There must also be mutual acceptance, willingness to receive as well as transmit, and recognition of the sender's and the receiver's circumstances. In the proper atmosphere, free exchange flows as naturally as breathing; without this atmosphere communication "programs" are futile.[5] "Real communication occurs when persons or groups voluntarily face a problem or an experience together; when they make genuine efforts to listen and to understand each other's ideas or interpretations of that experience or problem; and when they come hopefully to agreement and acceptance of the ideas in question."

The essential ingredient in communication is a mature understanding of human relationships. If we are to improve the art of communication, we must develop this understanding.

In a constructive management atmosphere we would find several conditions. First, information would not need to flow through the "grapevine." People would find out what they need to know, not just what others think they ought to know. Second, individuals expected to administer programs would be consulted when these programs are being developed. Third, important decisions would be made only after considering all points of view. The weight-of-evidence decision would replace the wave-of-the-hand decision. Fourth, status or position would be no barrier to effective collaboration.

Motivating

The motivation of individual members in an organization is a complex of working conditions, compensation, associations, quality of supervision, and of course the basic personalities of individual members. Some people will be spurred only by intense outer pressures or

[5] Ordway Tead, "Business Leadership in the Decade Ahead," *Advanced Management*, vol. XX, p. 8, February, 1955.

rewards; others will be highly self-motivated. In any event, the manner in which an organization is administered greatly influences the members' motivation and productivity. The aim should always be to create the conditions which encourage the expression of creativity and to avoid those conditions which dampen expression of individual talents.

Perhaps one of the most compelling desires people have is to find out how well they are doing. Everyone wants to know, and in one way or another he attempts to find out. He may do it deviously or directly. Either way, the urge is there and must be satisfied.

Compliments for good work should be sincere and should be given when they are earned, and as often. Last week's compliment is no good for outstanding work done this week, and the omission this week may indicate that the boss has had a change of heart.

Criticism should always be given in private and in a spirit of helpfulness. When an employee has erred, remember this: he was hired because someone believed in him. The manager's job is to get him back to the enthusiastic state of mind he was in when he was hired.

One of the manager's primary responsibilities is to avoid "prolem cases." Problem cases develop among good people from frustration and perhaps from mistrust of the superior's motives. Left alone, they get worse; faced at the beginning, they can be cured. Any member of an organization is likely to appraise that organization by the conduct of his supervisor; thus the actions of management will have a great effect on individual effort and productivity.

Status and Privilege. The granting or withholding of status and privileges are powerful factors in motivation. The manner in which these are used will mean the difference between creative and indifferent performance.

"Status" can be defined as the place a person holds in a society. It can be a place of esteem or of scorn, and it can be earned or unearned. It can be held securely, and it can be revoked. In short, it is a degree of social acceptance or rejection.

Status may take two forms: first, status attaching to a position (such as the office of the President of the United States); second, status attaching to a person. Status connected with a position falls upon the person who occupies that position but falls from him when he leaves it,

except as he has enhanced or diminished his personal status by his performance in that position. Status connected with the person as a person remains with him regardless of his position, so long as the condition that created it continues to exist. The organization cannot change or alter status attaching to the person, although it does provide the individual with opportunities to enhance it.

Status is conferred upon a position to facilitate its performance. When a person has earned the position, he is entitled to the status; if he has not earned it, he receives it anyway because the position requires it. It is particularly important, however, that the person be qualified for the position since the quality of his performance will greatly affect the position's future status.

Status attaching to the person will be conferred only when that person earns it by some display of ability or courage or by some achievement. Status varies with the values of associates; thus while one group will confer status for one condition, another group with different values will be unimpressed by that condition.

Methods of Conferring Status. There are two ways to confer status on a position. The first is by organizational location. Here the position is placed in an organization structure; certain duties are assigned to it, or certain titles are conferred upon it.

The second way to confer status entails conditions of work. For one position a private office is provided; for another, an automobile; and so on. These conditions of work become symbols of status, and in the sense that they are rights enjoyed by one individual, they might be called privileges. Some of these privileges are functional, that is, they facilitate performance of the position. Others are nonfunctional and do not contribute to performance. One privilege may be functional for one type of position and nonfunctional for another. When conditions of work do not serve the purpose of the position—that is, when nonfunctional privileges are conferred—artificial status results. The use of a company automobile by salesmen is a functional privilege; that is, it is essential to the salesman's task. The same privilege may be nonfunctional when granted to a headquarters officer whose total time is spent in a headquarters office.

There can be no objection to the granting of privileges—even to the

special arrangements for compensation brought about by existing tax laws or to the plush environment deemed desirable for outward appearances in some positions—when they serve a purpose, that is, when they are functional. But status bestowed by nonfunctional privileges encourages aspiration to positions by putting undue emphasis upon these privileges and tends to divert attention from the main purposes of the position.

The basic questions are these: What privileges serve the organization's purposes? What does the job require? For example, a salesman needs a company car; an employment interviewer needs a private office; and the president, who should be free from concern with routines, may need a chauffeur. Many conditions, such as special secretarial services, clerks for making travel arrangements, and a host of other such services, may be conferred simply to relieve nervous strain. Such privileges are basically tools of the job, as a carpenter's hammer is a tool of his job. They help achieve the organization's objectives. But privileges that contribute nothing to performance have no place in the business organization.

Status satisfies a basic need for recognition. Each individual must satisfy this need in his own way, but the most creative approach would emphasize one's personal development and the contribution one makes to the well-being of the organization. The thing to aim for is full opportunity for self-expression in all positions, and the manner of conferring status and privileges should facilitate this aim.

TOOLS OF EXECUTION

The following tools of execution are guides and controls, each designed to facilitate the smooth functioning of the organization or the personal time of the manager.

Personal Planning

Man's greatest possession is time and his greatest shortcoming, its waste. The management of one's own time requires that one sit back and take note of his schedule from time to time. Certainly every type of position has its own requirements, and time divisions for one posi-

tion or one person are inapplicable for others, but the principle of time planning is an important ingredient in any position.

Someone has suggested that an executive could profitably allocate his time in this manner: one-third to personal supervision—in the field and in the office; one-third to thinking and forward planning; and one-third to administrative routine—signing and approving documents and making decisions on administrative matters.

The use of personal assistants can extend the executive's available time. Assistants to executives or staff assistants can relieve the burden of administrative routine through the digest and summary of data and the execution of routine functions. (See discussion on the use of assistants in Chapter 4.)

Information

One of the manager's most important tools is information: information about people, the department, the company, and the industry. Each individual will assemble this information in his own way. The following is a cross sampling of information which may be found at various levels in the organization.

First, facts about personnel: number and type of employees, age, work experience within and outside the company, length of service in the company, health and accident history, education, training received, salary history, performance ratings, absences and tardiness, disciplinary action, and expressed job interests.

Second, facts about the department: measure and level of productivity, financial budgets, organization charts, position descriptions, inventory of physical properties, space layouts, work flow, records and reports, products and/or services for which responsible (sale, production, purchase, etc.), territories or areas to which responsibility extends (sales areas, company regions), and future plans.

Third, facts about the company: the nature and extent of the product line, nature and size of markets, location of production facilities and their capacities, location of company sales territories, company or product share in total markets, dollar volume of sales, profit ratios, growth curve as compared with the industry, productivity curve as compared with other companies in the industry, company organization

charts, total company employees by major departmental groupings, financial statements, and history of company sales, employment, income, stock value, earnings, and income ratios.

Fourth, facts about the industry: characteristics and location of the market (types of industries served), total market for company products, comparative data on company and competitors (production, sales, income, ratio of income to sales, stock issues, stockholders, invested capital, ratio of income to invested capital), growth curve of the industry, and productivity trends in the industry.

Fifth, facts about the total economy: flow of goods through the economy, personal income by regions and job class, wage rates in various states and countries, industrialized areas and value of industrial production, distribution of national income, classifications of industry, and industry comparisons by ratio of sales, profits, and net worth.

Reports

The report is one of the most effective of all management devices, but also one of the most abused. A clear and precise arrangement of data in a written document is a useful way both for the executive to get his facts and for his associates to convey them. But regular reports tend to outlive their usefulness and to continue even without the knowledge of people who originated them. A control system would eliminate this pitfall by appraising all reports at regular intervals and establishing controls over the initiation of new reports. Requests for information would be reviewed to determine the most effective method of presentation, and reports would be combined and consolidated wherever possible. Control over the initiation of reports could eliminate situations such as one described by an embittered employee, "Management asks us for reports which take a week to prepare. Then, when they get the finished job, they look at the figures and say, 'Well, that's just what we knew all the time,' and throw the thing in the wastebasket."

The following experience of one company's sales department illustrates what a controlled reporting system can accomplish:

The company had fifteen sales districts in twenty-six states, and its sales territories varied in area from the state of Texas to eastern New York State. The company's product line included more than 1,000

items, and its customers ran the gantlet from America's greatest industrial concerns to very small wholesalers. In such diversified operations, the problem of control was extremely complicated, and sales management had difficulty keeping abreast of activities in the sales districts. Management needed more information from its districts—and it needed the information faster—so a systematic review of all district operations was undertaken with a view to improving information on district activities.

The first step was to identify all district functions. All functions were analyzed and grouped into categories. These categories were: planning, customer contacts (solicitation), servicing orders and inquiries, maintaining records, and clerical routine (stenography, filing, etc.). The work of every member was then classified into the appropriate categories, with approximations of the time each individual spent in each category.

Next, an analysis of the company's customers was undertaken. The results showed:

1. Type of business
2. Volume of sales
3. Purchases of the company's products—from the company and from competitors
4. An appraisal of the customer's management, finances (including credit rating), productive capacities, and potential growth
5. Special advice required by the customer
6. His attitude toward the company and its policies

Another phase of the study included a map of sales territories, a list of accounts assigned to each salesman, and a record of the salesmen's actual calls on each customer.

Another phase analyzed the disposition of all orders and inquiries to show:

1. The number of orders from each customer
2. The time spent on each order and inquiry by every member of the organization
3. The number of inquiries which became orders and the number lost to competitors
4. The unit cost of servicing orders

5. The record of errors in filling orders (This later became a monthly report.)

A fourth phase developed information about primary competitors. This information included such matters as price patterns, orders which were lost to the competitor, credit terms, conditions of sale, proximity of production or warehouse facilities, and delivery limits.

Another aspect of the study was an analysis of work flow within each office. This analysis resulted in a more uniform and streamlined flow in all the districts.

Finally, each district prepared a sales forecast for every product and customer. Sales forecasts were made in three parts: first, a five-year forecast, revised annually; second, a one-year forecast; and third, a four-month forecast revised every month. The first part was used primarily for facility planning; the second and third, for planning production schedules and distribution channels.

As a result of this office-by-office analysis, the company established a system of records and reports which enabled management to watch each district's progress and to compare its performance with every other. And once the system was established, its maintenance was a relatively light burden on each district. It permitted an evaluation of personnel performance and provided a source of information for executive development. By providing information on customers' future requirements it improved the accuracy of forward planning.

Several tangible benefits resulted from the survey:

Forward sales planning became more accurate, thus permitting more precise production planning with a consequent reduction in production costs.

The institution of uniform order-handling procedure permitted the installation of mechanized equipment, with a consequent reduction in both order-processing costs and order errors.

Better information on customer needs enabled the sales department to serve the customer more effectively. Customer contacts became more closely controlled by the local sales management, and contacts by headquarters personnel were strictly scheduled, thus eliminating a source of customer irritation.

More accurate information on competitive conditions opened up new business previously unavailable.

The Meeting

One of the most common of all supervisory responsibilities is the holding of meetings. Meetings may be large or small, formal or informal, dull or lively, but they all have two things in common—they occur everywhere and they occur often. Many meetings are unnecessary, many of them fail in their purposes, and many more confuse the issues they are trying to resolve. But if we look at our meeting processes in a positive manner, we can make of them an effective management tool. The complexities of modern business organization make collaboration on certain levels absolutely necessary, and with proper direction, the meeting can be a material aid to management.

Not without cause has it been observed that "A meeting is a place where people who do not know what to do get together and decide nothing can be done." But if the conference method fails—as it often does fail—such failures result more from improper direction than from weakness in the system itself. While the sharing of ideas may be unnecessary to some activities, it is indispensable to others. To condemn the discussion process because it does not fit every situation is to slaughter the bull which gives no milk.

Every action, of course, does not require the type of discussion which a meeting affords, but discussion can serve many purposes beyond the resolution of immediate problems. It often provides a means of securing participation in basic decisions affecting people's work and of thus improving performance. As one writer has observed,[6] "In no area [speaking of modern industry] has it been so convincingly demonstrated, again and again and again, that people refuse to cooperate in meeting a standard of performance when they have not been allowed to participate in setting it up or, many times, even to 'understand' it."

The complexities and diversities of viewpoints so often present in meetings call for precise analysis. Harry Hopkins' ability to organize immense complexities earned him the title, "Mr. Heart-of-the-Matter." Winston Churchill, observing this trait, said, "Harry Hopkins always went to the root of the matter. I have been present at several great con-

[6] Fritz J. Roethlisberger, "The Foreman: Master and Victim of Double Talk," *Harvard Business Review*, Spring, 1945, p. 297.

ferences, where twenty or more of the most important executive personages were gathered together. When the discussion flagged and all seemed baffled, it was on these occasions he would rap out the deadly question, 'Surely, Mr. President, here is the point we have got to settle. Are we going to face it or not?' Faced it always was and, being faced, was conquered." [7] It is this frame of mind which is required in the business meeting.

The meeting might find it helpful to lay out an organized course for considering the problems before it. Such a course should cover at least these elements:

THE PROBLEM: A statement of the problem for which the meeting seeks a solution

THE CAUSES: The factors, major and minor, which have brought about the problem

THE CRITERIA: The group's objectives, what it wants to accomplish (In some instances the meeting may want to add OBSTACLES to the solution.)

THE SOLUTION: A statement of all possible solutions, regardless of how many objectives any one of them satisfies

There is nothing so fruitless as an argument over knowable facts. To argue about how many automobiles were registered in North Platte last year, for example, would be a worthless exercise. When it is known in advance that such readily available information will be needed, someone should be prepared to furnish it.

A study of several business and government conference groups a few years ago revealed some interesting conditions about the meeting process. The report on this study was careful to point out the relatively small sampling of meetings and the tentative nature of the observations, but its conclusions will have a familiar ring to the business executive. The comments are divided into three categories: [8]

First, *member satisfaction:* the more cohesive the group, the greater

[7] Winston S. Churchill, *The Grand Alliance,* Houghton Mifflin Company, Boston, 1951, p. 24.

[8] D. G. Marquis, Harold Guetzkow, and R. W. Heyns, "A Social Psychological Study of the Decision-making Conference," *Groups, Leadership and Men,* Carnegie Press, Carnegie Institute of Technology, Pittsburgh, Pa., 1951, pp. 56–67.

the satisfaction with the meeting. The more the group's process was characterized by self-oriented behavior, the less satisfied were its members. The more orderly and systematic, the more the leader exercised control over the group process, the more the chairman displayed strong, leading behavior, the greater the satisfaction of members.

Second, *group productivity:* the more the group process evidenced self-oriented need behavior (by individual members), the less productive the group. Shared leader functions and informal procedures did not reduce group productivity. The more urgent the problems, the more productive the group. The more adequate the power of the group (to deal with the problem at hand), the more productive the group. The more adequate the communication (audibility, understandability, and freedom to participate), the more productive the group. The more orderly the treatment of topics (minimum of backtracking and simultaneous discussion of more than one topic), the more productive the group. The more penetrating the attack on the problem, the more productive the group.

Third, *member disagreements with the group decision:* the more the disagreement as to goals and means to goals, the greater the amount of residual disagreement (disagreement with decisions after the meeting was over). The more self-oriented need behavior, the greater the amount of residual disagreement. The less the authority of the group to deal with the problem before it, the greater the amount of residual disagreement. The more conflicting behavior, the more opposition to each other's contributions, the more time spent in conflict situations, the greater the amount of residual disagreement. The better the members understood what one another said, the less the amount of residual disagreement. The greater the individual awareness of what was happening in the group, the less the amount of residual disagreement. The greater the feeling of individual acceptance, the less the amount of residual disagreement.

Other Communication Devices

Manuals of policy, procedure, and standard practice can be effective communication media. The personnel manual with its employee sug-

gestion system, for example, is a valuable aid to employee communication—as is the employee handbook. (See Personnel Manual and Employees' Handbook, below.)

Polls of employee opinion and attitude surveys may give management some insight into the thinking of employees, but if communication channels are operating and if easy relationships exist, surveys and polls of opinion are irrelevant. But when such relationships do not exist, the morale survey is at least better than nothing. The content of the survey will depend, of course, upon what is to be done with the information, but the employee should be encouraged to express his ideas in his own language. To be successful, there should be adequate machinery to follow through on required corrections.

Written messages in all forms—employee publications, circulars, bulletins, and memoranda—are universal. The president of a medium-sized enterprise recently described an unusually interesting scheme of written communication which he has employed for several years. His company's products are sold in every state in the United States, and it has plants in widely separated areas. He spends much time traveling among these plants, and on his trips he makes himself readily available to all employees. Realizing that he cannot talk personally with every employee and yet firmly convinced that every member has a share in the company's success, he sends a personal letter to each employee once a month (mechanical duplication removes some of the personal touch, but he believes the employees understand and accept it) in which he describes the company's current business problems. Since he began using the letter he has noticed a considerable change in employees' attitudes. They show a greater interest in the company's progress, and individuals often stop him to discuss problems mentioned in the letters. He claims that some of his best suggestions come from men who learned of company plans through the monthly letter.

The president's message in this case seemed to be a success, for here was a man whose genuine concern got through to the employees and secured their enthusiastic support.

Administrative Manuals

TOP-MANAGEMENT MANUAL

A compilation of top-management policies written and compiled for ready reference facilitates orientation and training of personnel and helps to clarify relationships within the organization. A manual of policies could include several types of information:

First, statements of broad policies on such matters as organization form (merger, diversification, individual proprietorship, partnership, corporation); production (controls, quality, production costs); commercial relations (product distribution, claims settlement, inventories, prices, service, application of credit terms); financial accounting (costs, disbursement control, financial data for management); procurement (types of sources, quality, service, reciprocity); transportation (costs, ownership versus lease, type of equipment, carriers); employee relations (safety, employment, union recognition, compensation, development, working conditions, promotions, pensions, insurance, recreation); supervisory relationships (delegation of authority, instructions, participation in decisions); measurement and evaluation of performance (performance standards, performance ratings); legal (determining legality for certain types of actions); technological progress (development of product line, industry developments, research, patents); public relations (memberships, charitable contributions, public presentations); financial management (dividends versus retained surplus, borrowing versus stock issues, classifications of expense, capital expenditures); economic objectives (profit margins, rate of industry participation); organization structure (headquarters-field relationships, decentralization); facilities (replacement versus maintenance, age, capacities); and contractual relations (bids, performance bonds).

Second, an enumeration of company and departmental objectives. For example, the finance department's objective may be stated thus: to record and account for company financial resources and to provide financial data for the guidance of management.

Third, a set of general provisions covering such matters as: the regulations under which the company functions (bylaws, certificates of incorporation); statistical data on company sales, production, etc., including figures showing the enterprise's relative position in its industry; listings of the company product line, facilities, and sales offices; a list of principal officers (and directors); a brief history of the company; and an over-all company organization chart.

PRODUCTION MANUAL

1. *Coordination of sales and production plans:* Contents of the order form, production lead time, preparation of production forecasts, and methods for coordinating sales and production forecasts
2. *Processing of orders:* Method of transmitting orders to producing unit, minimum shipping quantities, plant acceptance of orders, report on orders accepted, marking and identification of orders, reports on status of orders, establishment of shipping schedules, obtaining credit clearance prior to shipment, report of shipments, processing order changes, handling orders requiring outside purchases, development of packaging, marking, and loading instructions, authorizing trial lot or experimental orders, quotation on customers' inquiries
3. *Production scheduling:* Determining order priority, establishing lead dates, cancellation of orders, establishing shipment forecasts, special production arrangements, transfers between plants
4. *Standards:* Productivity and efficiency levels, cost and profit objectives, plant and equipment standards, safety standards, production methods, maintenance standards, labor standards and incentives, quality standards, product tests and inspections, customer complaints and claims, raw-material standards
5. *Facilities:* Capacities, products, profitability, quality, protection, waste disposal
6. *Plant admission:* Identification badges, passes, security, visitors

SALES MANUAL

1. *Sales planning:* Sales forecasts, sales quotas, territories, pricing policies, application of terms and conditions of sale, customer evaluation ratings, distribution costs, quality standards, licensing of company patents, coordination of sales with production plans
2. *Promotion:* Advertising—budget, determination of media, production and approval of copy, direct mail, cooperative advertising programs, measuring effectiveness; sales promotion—participation in trade shows

and exhibits, experimental promotional projects, product packages, product names, trademarks

3. *Solicitation:* Call quotas, acceptance of orders, order forms, customer quotations, contracts and bids, sales presentation methods, signature authorization, indirect selling
4. *Customer service:* Interpretations of pricing policies, applying prices to orders and inquiries, special allowances on orders, instructions for completing order and inquiry forms, acknowledgments and delivery promises, special handling of orders, billing of orders, application of tax laws, reporting of order errors, technical service, outside purchases, complaints and claims
5. *Markets and competition:* Determining markets for company products, securing information of competitor activity and methods of business, determining customer requirements

ENGINEERING MANUAL

1. *Facilities:* Contract specifications and bids, quality standards, estimates, execution of contracts, construction schedules and project priorities, construction inspections, compliance with building codes, equipment installations, insurance, utility services, authorization of partial payments, terms of occupancy, replacement schedules, safety devices
2. *Capital appropriations:* Consolidation of the capital budget, expenditure authorization, work authorization, expenditure controls (Authority for the approval of capital expenditures is often delegated to different levels of the organization so that departmental management, for example, may authorize outlays up to $5,000; headquarters officers, from $5,000 to $50,000; and the board of directors, everything above $50,000.)
3. *Raw materials:* Acquisition of raw-material sources, explorations, surveys, raw-material reserves, storage, transportation

FINANCIAL MANUAL

A manual of financial instructions and procedures could include: (1) a list of account and code classifications; (2) method of billing and invoicing; (3) method of processing and payment of invoices; (4) method of securing credit clearances and extending credit limits; (5) policies for determination of depositories; (6) policies for making bank deposits; (7) method for authorizing disbursements; (8) determination of authorized signature; (9) payroll and timekeeping methods, including policies on payroll deductions, union dues and fees, and wage attachments; (10) policies on salary advances and expense allowances,

including credit cards, mileage, per diem allowances, and moving costs; (11) the budget process, including: (*a*) departmental responsibility for preparation, approval, and enforcement of the budget; (*b*) the sequence and time schedule in which various parts of the budget are developed, approved, and executed; (*c*) the period of time covered by the budget; (*d*) procedure for revisions and modifications in budget allowances; (*e*) provision for budget reports and corrective action when irregularities appear; (12) development of costs; (13) enumeration of required property records and method of conducting the physical inventory, including policies on determining depreciation allowances; (14) policies on retention of records (microfilming, storage, etc.); (15) enumeration of prescribed statistical reports and the method of their preparation; (16) procedures for compliance with applicable laws and regulations; (17) method for the conduct of internal audits.

PURCHASING MANUAL

1. *Procurement methods:* Authority for selection of vendor and product, purchase contracts, joint purchases, emergency procurement, blanket orders, purchase orders, quotation requirements, procurement budgets, procurement limits, authorization to obligate
2. *Procurement sources:* Suppliers' qualifications, geographical location, diversity of source, reciprocity, control of supply sources
3. *Products and inventory:* Make or buy policies, review of patents and copyrights, makes and trade names, leasing, stock-out ratios, reorder points, specifications, substitutions, forward buying
4. *Prices:* Protection against movement, price discounts, one-price policy, discounts, disclosure
5. *Inspection and claims:* Departmental responsibility, inspection points, acceptance and rejection of orders, claim limits, adjustments
6. *Purchasing ethics:* Vendor relations, reception of salesmen, vendor gratuities
7. *Purchasing for company personnel:* Amounts, prices, deliveries

TRAFFIC MANUAL

1. *Rates and classifications:* Rate schedules, rate quotations, exception ratings, rate proposals, product descriptions, purchasing and sale quantities, selection and maintenance of tariffs
2. *Routing and distribution:* Routing instructions, approved carriers and equipment, siding and demurrage agreements, distribution of shipments among carriers, equipment supply, custody and maintenance of equipment, performance records, selection of carriers, contracts, con-

solidation of shipments, scheduling, tracing, expediting, clearances, diversion, reconsignment, clearance at customers' plants, insurance, credit arrangements, movement of disposable wastes, securing passenger reservations, moving employees' household goods, securing shipping licenses, travel credit cards, company-owned equipment

3. *Audits and claims:* Verification of charges, authorization of payment, overcharge and reparation claims, loss and damage claims, "bill backs," collection of claims, customer claims
4. *Methods and materials handling:* Plant layouts and material-handling equipment, advertising on company equipment, warehousing, storing, packaging, and packing, marking, loading
5. *Government regulatory bodies:* Transportation legislation, hearings, utility commission regulations
6. *Carriers:* Traffic associations, ethics
7. *Shipping documents:* Examples and explanations of use

PERSONNEL MANUAL AND EMPLOYEES' HANDBOOK

PERSONNEL MANUAL

The Personnel Manual might spell out company policies on selection, compensation, development, labor relations, and personnel services and benefits. Included in such a manual could be policies and procedures on the following:

1. *Employment:* Recruitment, departmental requisitions for personnel, inquiries for employment, job applications, physical examinations, employment contracts, union membership, part-time employment, female employment, employment of minors, temporary employees, employment of handicapped workers, nepotism, tests, probationary periods, legal restrictions, working hours, tardiness, absence, trainee programs, identification badges and plant passes, promotions and transfers, bonding seniority, transfers
2. *Compensation and classification:* Ranges, merit raises, incentives and bonuses, promotions, deductions and withholding, adjustments, reclassification, overtime, severance allowance, payment of deceased's wages, confidential information, advances, apprentices, union checkoff, length of service
3. *Union relations:* Memberships, elections, bargaining units, arbitration, grievance procedure, work stoppages, picketing
4. *Working conditions:* Rest facilities and rest periods, lunchrooms and restaurants, safety practices, safety equipment, use of company vehicles, travel insurance

5. *Leaves, layoffs, terminations:* Health, jury duty and other court appearances, elections, military service, pregnancy, continuity of service, causes for leaves of absence, causes for discharge, exit interviews, USES notifications, recommendations
6. *Vacations:* Eligibility, length, accumulation, schedules, vacation pay, allowance in lieu of vacation, split vacation
7. *Holidays:* Days recognized, religious observance, compensation
8. *Health and safety:* Insurance, medical facilities, physical examinations, contagious diseases, accidents, injuries at work, workmen's compensation
9. *Employee education and training:* Apprenticeship, subjects of training, time off for training, company-paid tuitions, factory visits
10. *Retirement:* Age limits, early retirements, pensions, continued service after retirement
11. *Life insurance:* Amounts, terms, effect of retirement
12. *Expense accounts and allowances:* Overtime work, mileage allowances, receipts, per diem versus actual expenses
13. *Employee inventions:* Patents and copyrights
14. *Employee organizations, publications, bulletin boards*
15. *Employee memberships:* Company payment of dues
16. *Employee suggestion system:* Employee eligibility, types of suggestions for which awards will be made, basis for determining amount and type of award, timing of the award, priority of similar suggestions, awards for identical suggestions, responsibility for administration of the suggestion system, for preparation of suggestions, disposition of suggestions
17. *Public presentations:* Public meetings, teaching, articles, speeches, community organizations
18. *Employee purchase of company products*
19. *Contributions:* Solicitations
20. *Awards:* Service, suggestion, safety
21. *Records and personnel forms*
22. *Labor legislation*

EMPLOYEE HANDBOOK

The employee handbook could serve for recruitment and indoctrination as well as a ready reference for all employees. Such a handbook could: [9]

[9] The following outline is based on material developed by Wm. E. Rudge's Sons, 130 Cedar Street, New York, Printers, taken from *The Executive's Handbook–1955,* Dartnell Publications, Inc., 4600 Ravenswood Avenue, Chicago 40, Illinois.

I. Answer routine questions about the company and its people:
   A. When it was established
   B. Who established it
   C. Where it was established
   D. Why it was established
   E. The nature of its business
   F. Number of employees
   G. Number of plants or branches
   H. Names of key officers
   I. Manufacturing processes

II. Tell employees about their job:
   A. How rate of pay for job is determined
   B. How employee's time is recorded
   C. How payment is made and on what day
   D. What holidays are observed
   E. Whom to notify when absent from job
   F. Uniforms
   G. Chances of advancement
   H. Rules for personal conduct while on the job
      1. Fighting
      2. Gambling
      3. Intoxication
      4. Smoking
   I. Need for badges, passes, and other identification insignia
   J. What to do when identification insignia is lost or forgotten
   K. How to obtain special passes
   L. Training programs
   M. Discipline
   N. Performance rating
   O. Job classifications
   P. Shifts and work schedules
   Q. Working hours
   R. Housekeeping
   S. Breakage and loss
   T. Maintenance of equipment

III. Tell employees about health and safety:
   A. Health and safety rules
   B. What to do when he or an employee working with him has an accident
   C. The function of the plant physician and his staff
   D. Medical and hospital services
   E. Personal cleanliness

F. Proper working garb
G. Locker rooms
H. Rest periods
I. Fire protection

IV. Tell employees about benefits and restrictions:
A. Pension, insurance, and retirement plans
B. Bonus plans
C. Sickness and accident benefits
D. Hospitalization plans
E. Stock-buying plans
F. Awards and cash prizes for suggestions, attendance, safety, production, etc.
G. Personal mail
H. Personal visitors
I. Social functions
J. Living expenses for new employees
K. Use of company property

V. Tell employees about miscellaneous facilities available to them, such as:
A. Cafeterias
B. Car pools
C. Public transportation services
D. Parking lots
E. Check-cashing service
F. Shopping services
G. Residential communities
H. Savings bank plans
I. Company magazine
J. Recreation facilities
K. Legal advice
L. Labor-management committees
M. Company stores
N. Credit union
O. Lost and found

VI. Tell about company's plans for the future

VII. Tell what company's plans will mean to each employee

PUBLIC RELATIONS MANUAL

1. *Public presentations:* Approval of speeches and papers, clearance of press releases, conduct of public meetings, contact with newspapers

and other communication channels, dissemination of company information, committees to review public presentations

2. *Public promotions:* Participation in trade shows and conventions, preparation and display of exhibits, support of educational and civic ventures
3. *Plant visits:* Guides, securing passes, safety measures
4. *Employee and stockholder relations:* Dissemination of performance records, house organs and publications, stockholder meetings

PROPERTY MANAGEMENT MANUAL

1. *Properties:* Instructions on care and use of equipment, storage methods, property requirements and standards, procurement of space and furnishings, insurance limits and types, property age standards, allocation of space, motor vehicle leasing, report of motor vehicle accidents, employee use of company-owned property, property appraisals and assessments, determination and disposal of surplus, reclamation of waste, analysis of raw-material sources and use
2. *Inventory control:* Classification of inventories, requisitioning and issuance of supplies, control of stocks, report of slow-moving stock, report of stock activity, disposition of slow-moving stock, authorization to scrap obsolete inventory

7. APPRAISING

The appraisal of performance may be used for three purposes: first, to determine the adequacy of operating programs; second, to assure that standards are being met; and third, to assure that objectives are being achieved. Appraisal provides management with control over the organization's activities and reveals the matters—both in program and in performance—requiring corrective action.

An enterprise can be appraised by a number of economic factors: net profits, return on investment, return on total capital, production value, contributed value, relative position in the industry, rate of growth, rate of development in new markets or products, or a number of other such factors. The system of appraisal presented here looks to the practices of management first and finds the economic results through these practices.

For purposes of this appraisal, management is divided into six segments: top-management policy, organization and management, personnel practices, finance, operation and sale, and supervision. For each of these segments there is a list of criteria against which to measure its effectiveness. These criteria are stated as questions which should be answered in the affirmative in most instances. If answered

in the negative, and thus if performance is falling below acceptable standards or objectives, two alternatives present themselves: *first*, performance should be adjusted to meet standards and objectives, or *second*, standards and objectives should be adjusted to more realistic proportions.

TOP-MANAGEMENT POLICY

1. Do policies provide consistency of action?
2. Do policies provide a basis for governing future action?
3. Are policies broad enough to permit adaptation to changing conditions?
4. Are policies stated in such a way as to assure clear understanding of what action is required?
5. Are policies sufficiently broad to encourage exercise of individual initiative?
6. Are there sufficient policies to provide adequate guidance to all necessary activities?
7. Are policies reviewed periodically in light of new developments?
8. Are the company's long-term aims and objectives defined?

ORGANIZATION AND MANAGEMENT

Organization

1. Are the major segments of the enterprise (sales, production, finance, etc.) equally represented in the top counsels of the company?
2. Does the organization contain the full—and necessary—complement of required activities, and are all activities related in a systematic fashion?
3. Do employees understand what is expected of them and to whom they are responsible?
4. Do the assigned functions of each position take account of the part which the position plays in the total activity, the most efficient work sequence, other units or positions with which

work must be coordinated, and the authority which is necessary to carry out responsibilities?

5. Do members have ready access to everyone necessary to accomplish their assigned responsibilities?
6. Are assignments of responsibility and authority sufficient to permit achievement of work performance without coordination or approval by an undue number of other people?
7. Are the position's and unit's responsibilities known by others with whom work must be coordinated?
8. Is the number of employees reporting to each supervisor small enough to assure adequate control?
9. Are the major functions of a similar nature located in the same organization unit?
10. Is the organization built predominantly around units of work rather than around personalities?
11. Are service units located within the organizations they serve?
12. Does the structure provide a machinery for joint deliberations or consultations (committees, panels, etc.) where these are necessary?

Management

1. Are management policies known and understood by all concerned?
2. Do administrative personnel have sufficient time for planning?
3. Are the facts required for effective management decisions readily available?
4. Do members have ample opportunities to express their opinions and contribute their experience on the solution of problems and development of policy related to their responsibilities?
5. Are standard-practice procedures clearly developed and periodically reviewed, and are they easily understood and applied?
6. Can employees rely on management decisions without apprehension of later reversal?
7. Are the operating decisions of supervisors supported by their superiors?

8. Is there a reporting system which keeps management informed of essential operating and financial information?
9. Are forms, records, and reports fulfilling a known purpose, and are members aware of this purpose?
10. Is there a feeling of mutual respect among employees and a pride in belonging to the group?
11. Is the public aware of and sympathetic to the services of the company?
12. Is the public advised of the plans for company improvements which affect community welfare?
13. Does the company share in the costs of community betterment programs?
14. Are company employees encouraged to participate in community affairs?
15. Is the company pursuing an organized approach to the appraisal of future development opportunities?

PERSONNEL PRACTICES

1. Are new employees fully advised of conditions essential to their jobs, company standards and practice, and employee benefits?
2. Are manpower requirements established against measured work volume?
3. Are pay scales competitive?
4. Is incentive compensation utilized where possible?
5. Are performance standards established against measured units of work, and is performance measured against these standards?
6. Are there provisions for training and development?
7. Are training programs designed to broaden employees as well as to increase their specialized knowledge?
8. Are replacements available as needed to assure easy movement of executives?
9. Are future executive needs appraised periodically?
10. Is the turnover and absentee rate in line with industry averages?
11. Is the grievance rate low?
12. Are position responsibilities clearly described?

13. Are selection standards related to known factors of success?
14. Are there paths of promotion for every position, and are incumbent employees aware of their opportunities?
15. Are replacements being prepared for management and supervisory positions?
16. Are executive promotions made on the basis of merit and without regard to organization levels and steps in the hierarchy?
17. Are released employees helped in finding employment elsewhere?

FINANCE

1. Is expansion being paid for out of earnings and equity capital?
2. Are dividends paid only from earnings?
3. Are discounts being taken on accounts payable?
4. Are reserves being accumulated on a planned schedule?
5. Are profit ratios comparable to other companies in the industry?
6. Are past records maintained on annual net income in ratio to net worth, to net sales, to product costs, and to profit margins (including histories of cost per sale and product costs)?
7. Is there a systematic budget control, including budget estimates, budget formulation, budget approval, and expenditure control?
8. Are there clear standards of measurement for determining the reasonableness of budget requests?
9. Are capital expenditure costs compared with authorized amounts?
10. Are profits from new capital facilities measured against original estimates?
11. Is working capital sufficient to minimize short-term borrowing?
12. Is capital utilization periodically analyzed to assure maximum return on available resources?
13. Do accounting records and reports provide current information on financial condition and operating results?
14. Are production costs determined and recorded in such form as to be usable in any incentive pay plan?
15. Is the form of subsidiary accounts consistent with the primary

accounts, and do departmental reports tie into a uniform system?

16. Are depreciation charges determined on a replacement cost basis to the extent allowed by tax regulations?
17. Do accounting charges get processed through the various parts of the accounting system without duplication and reposting?
18. Do accounting reports provide a complete enough picture of departmental activities to make unnecessary the maintenance of financial reports in each department?
19. Are credit collections at least equal to industry experience?
20. Are audits conducted periodically?
21. Are financial resources geared to the company's future requirements?
22. Are sources of financing sufficiently developed to supply adequate resources as needed?

OPERATION AND SALE

Cost and Profit Performance

1. Are profit margin curves at least equal to the industry?
2. Are production costs in line with the industry:
   a. Make-ready time
   b. Materials handling
   c. Spoilage
   d. Overhead costs
   e. Raw-material prices
3. Is the profit margin on each product known?

Product Line

1. Are unprofitable items being eliminated from the product line, and are new products under study?
2. Are new uses and new customers being found for existing products?
3. Is there a systematic plan for the consideration of new product proposals:
   a. Are capital needs determined, and is capital available?

b. Are proposed products compatible with existing products and with the company's "know-how"?
c. Is the market demand appraised—is the introduction timely?
d. Are competitive conditions known, and is the company's experience compatible with the competitive requirements?
e. Will the proposed product fit into the line of existing customers? If not, is the company prepared to deal with new customers?
f. Can the product be distributed through the company's existing channels?
g. Are the customary sales terms and marketing practices for this type of product compatible with the company's present practices?
h. If sales will be subject to seasonal fluctuations, will these fluctuations counterbalance fluctuations of existing lines?
i. Can the product be produced on existing facilities? If new facilities are needed, can they be integrated into existing facilities?
j. Do production and distribution costs permit a margin of profit consistent with margins of existing products?
k. Should the product be produced in total, or should some components be produced outside?
l. Are raw-material sources available?
m. Are inventory requirements adaptable to existing practices?
n. Can the product be protected by patent, or do royalties restrict the market?
o. Does required promotional effort fit into company experience?

Facilities

1. Is the cost of property occupancy evaluated to determine whether to own or lease?
2. Is down-time for equipment maintenance kept within scheduled limits?
3. Are plant and facility locations analyzed from the standpoint of:
   a. Labor supply?

b. Availability of markets?
c. Utilities and fuel accessibility?
d. Transportation?
e. Raw-material supply?
f. Community services such as schools, hospitals, etc.?
g. Taxation?
h. Community acceptability of the facility and employee acceptance of the community?
i. Adequacy of capacity?
j. Property values?
k. Availability of capital?
l. Construction costs?

4. Are plant maps and charts maintained up to date?
5. Are facility age ratios in proper balance for the industry? (One guide on facility age is that 25 per cent of facilities should be new. What is considered to be new depends upon the industry; in some, it may be three years, in others five, etc. One criterion might be to divide the years according to the profitable life of the facilities. If this period is twenty years, 25 per cent might be five years or less; 50 per cent, fifteen years old or less; and no more than 25 per cent, fifteen years old or older.)
6. Do capital improvement programs take account of:
   a. Site costs:
      (1) Land?
      (2) Roads, rights-of-way, and railroad sidings?
      (3) Grading and drainage?
      (4) Parking areas?
      (5) Fire protection?
      (6) Fencing?
      (7) Lighting?
      (8) Landscaping?
   b. Building costs:
      (1) Architect's fees?
      (2) Engineering and design costs?
      (3) Construction costs?
   c. Equipment and furnishings costs?

d. Utility costs:
  (1) Pipelines and sewers?
  (2) Electric power lines?
  (3) Water transmission and storage?
  (4) Communication equipment?
  (5) Air and water pollution?
e. Allowance for cost increases:
  (1) Labor?
  (2) Materials?
  (3) Reengineering and redesign?
f. Insurance costs?
g. Administrative costs?
h. Cost of inventory?
i. Working capital requirements?
j. Start-up expenses?
k. Estimated lag between initial production and break-even point on sales?
l. Estimated production costs and break-even point?

7. Is equipment in wide use standardized to a single type?

Marketing

1. Are markets for all products analyzed and regularly appraised?
2. Is the total available business of each territory known?
3. Are competitive conditions analyzed and regularly appraised:
   a. Percentage of company and competitive participation in markets?
   b. Trends in market participation?
4. Is the condition of customers known and regularly reviewed:
   a. Reliability and stability?
   b. Attractiveness of business (profitability)?
   c. Competitive conditions?
   d. Condition of the customer's industry (expansion, decline, cycle, stability)?
   e. Financial condition?
   f. Management?
   g. History of previous business?

h. Customer's satisfaction with previous business (claims, complaints)?

5. Are the customers' product requirements known and regularly appraised?
6. Is the sales volume curve at least equal to the industry?
7. Is there a clear-cut price and discount policy? Are prices following established policy? And is price policy meeting competitive conditions?
8. Is the most profitable order size known, and is a minimum order size established (using other outlets to handle small orders)?
9. Is the method of sales reviewed from time to time to determine if it is best for the industry being served? (Or could direct mail replace sales representatives, for example?)
10. Are production and sales plans coordinated?
11. Is advertising and sales promotion support divided objectively among all products?
12. Are the responses to advertising programs regularly appraised to determine return on expenditures?
13. Is there an organized method for establishing sales objectives and measuring attainment?
14. Are sales territories divided in a systematic manner, and are they regularly reviewed?
15. Are sales personnel well versed in the product line and its production?
16. Are customer and territory contacts planned, and is the plan adhered to?
17. Has planned sales volume been attained?
18. Are new accounts being developed regularly?
19. Do solicitation calls fulfill customers' requirements?
20. Are repair and spare parts readily available, and are there arrangements for getting them to customers in emergencies?
21. Is there an established program for customer service, and are service costs known? (Should service be given by dealers, by district offices, or by the manufacturer?)
22. Is consumer acceptance regularly appraised to determine need for possible adjustment in company policies or product line?

23. Are order handling and billing standardized? (Should clerical work be done at the district offices or at the home office? Should orders be channeled through headquarters or entered directly on the producing unit?)

Production

1. Are production deadlines being met:
   a. Is production volume spread evenly through the scheduled period?
   b. Are production schedules changed regularly in light of performance?
2. Are production records sufficient to provide accurate costs per unit produced and to show the productivity rate of each facility?
3. Is the total value of production from each facility known?
4. Is idle time for each facility known?
5. Is productive efficiency studied regularly, and is there an established procedure for determining quality:
   a. Are defective product rejections being reduced?
   b. Are inspections made in sufficient time to permit correction of production errors?
6. Are accident rates being reduced?
7. Do packaging and shipping practices take account of the products' requirements:
   a. Are bulk shipments utilized where packaging costs can be reduced?
   b. Can lighter packages with lower freight costs serve the same purpose as existing packages?
   c. Are carload shipments utilized where possible?
   d. Have the uses of different packaging materials been fully explored: wood, wire, paper, metal, plastic, cardboard?
   e. Are returnable containers utilized where possible?
   f. Are demurrage charges on incoming shipments fully considered?
   g. Are packaging costs of purchased items known, and can containers be reused?
8. Is the most profitable shipment size determined?

Material

1. Are inventory levels geared to operating and sales conditions:
   a. Are inventory turnover ratios adapted to the needs of the industry?
   b. Are inventory levels established by analysis of need?
   c. Do inventory records reveal the movement of each item of inventory?
   d. Does shortage of parts or materials ever disrupt production flow?
2. Are future material sources being developed and protected?
3. Have raw-material sources been protected against price movements?
4. Are suppliers' production capabilities known?
5. Are desirable suppliers given sufficient commitments to enable them to invest in the most efficient equipment, and are actual product costs compared with original contract estimates?
6. Are products of competitive suppliers regularly compared?
7. Are blanket or contract orders used for standard replacements?
8. Are suppliers given opportunity to analyze company needs and to suggest improvements in purchased material?
9. Are purchased supplies tested where necessary?
10. Is consideration given to whether to make or buy or lease:
    a. Cost comparisons?
    b. Quality differences?
    c. Production schedules?
    d. Available time and suitable equipment and manpower?
    e. Permanence of the component design?
    f. Complexity of the component?
    g. Relativity of overhead costs?
    h. Transportation availability?
11. Are orders for related-type products combined and placed at longer intervals?
12. Are purchase and sales commitments controlled by plan?
13. Are prices paid by decentralized purchasing units compared with each other?

14. Are traffic methods most suitable for the product and customer? Are traffic costs known? And are freight bills regularly audited?

Research

1. Do the current product line or production methods show a relationship with previous research efforts?
2. Are current research expenditure ratios comparable to other members of the industry?

SUPERVISION

1. The test of any supervisor might be in the question: Would the people he supervises hire him if they were the bosses?
2. Are members kept informed of the general and departmental policies of the company, the relationship of their work to that of others, and the progress of their group's work?
3. Do supervisors know and understand the terms of union contracts related to their work?
4. Do supervisors keep their management informed of progress in their group?
5. Do employees regard their company as a good place to work?
6. Have employees manifested their loyalty to the company by becoming stockholders?
7. Are the turnover and absentee rates in line with the industry, and are causes of employee turnover investigated?
8. Are supervisors expected to recognize and encourage individual initiative, avoiding authoritarian methods?
   Results of the authoritarian type of leadership: [1]
   a. Dependence on the leader for rewards and penalties
   b. Leader-centeredness
   c. Preoccupation with learning what leader wants
   d. Dependence upon the leader to define goals
   e. Increase in insecurity resulting from inability to predict the leader's behavior
   f. Continual interdepartment conflict

[1] Chris Argyris, *Executive Leadership,* Harper & Brothers, New York, 1953, pp. 108–110.

g. Hiding of interdepartment conflict from the leader
h. Dependence upon the leader for a sense of group cohesiveness
i. Informal behavior, characterized by expressions of pent-up feelings that arise from conflict, tension, and frustration
j. Adoption of psychological defenses and adaptive mechanisms

9. Do supervisors recognize and assess prejudices, and do they show tolerance of other viewpoints?
10. Do supervisors publicize and give credit to members for outstanding work?
11. Are members aware of how they are regarded by their supervisors, and are they commended for jobs well done?
12. Does the supervisor support and "go to bat" for members of his group?
13. Do members find their supervisor easy to approach?
14. Does the supervisor absorb the criticism of his superiors without transmitting it to his subordinates?
15. Does the supervisor support his group in controversies with others?
16. Does the supervisor make his oral and written messages clearly understood?
17. In group discussions, do members speak freely without apprehension of reprisal?
18. Do employees get consideration for their suggestions and ideas?
19. Do members feel free to point out limitations or errors in the work of their supervisors?
20. Does the supervisor assist the group in the settlement of conflicts within the group and between the group and others?
21. Are supervisors consistent in disciplinary action, and is individual action discussed in private?
22. When errors are made, does the supervisor make a conscious effort to determine the causes and assess the responsibility?
23. When the supervisor discovers an error in his judgment of a member's performance, does he rectify the error by explanation to the member?
24. Are members encouraged to engage in studies or other activi-

ties in order to keep abreast of practices in their fields of specialty?

25. Do supervisors make an effort to utilize members' capacities to the end that they may progress in their jobs?
26. Do supervisors explain advancement opportunities to their members?
27. If advancement opportunities for particularly capable people are limited in their present positions, do supervisors try to find opportunities for them elsewhere?
28. Do members understand the extent of their authorities?
29. Does the supervisor see that members are given all the information they need to accomplish their tasks, and does he encourage the asking of questions about the work?
30. Do members have confidence in the accuracy of what the supervisor says?
31. Are members provided with all facilities and equipment necessary to perform their jobs?
32. Do supervisors conduct their own activities with the same efficiency they expect of their subordinates?
33. Are members conscious of costs, and do they avoid wasteful practices?
34. Are reasonable work standards established, and are these standards met?
35. Is work performance evaluated against standards?
36. Is work performed within scheduled time?
37. When unusual overtime work is required, do supervisors find out how it will affect members' personal plans?
38. Are priorities of work established and regularly reviewed?
39. Do supervisors and members coordinate their work with others whose functions relate to theirs?
40. Does the supervisor plan the workload to eliminate violent peaks and valleys, and does he see that necessary materials are on hand when needed?
41. Do supervisors have systems to remind them of duties and engagements?

42. Do supervisors make decisions in sufficient time to keep the flow of work moving?
43. Does management leave the giving of specific work assignments to immediate supervisors?
44. Do supervisors let their subordinates perform their work in the manner which is natural for them?
45. Are members allowed to follow their jobs through to completion without interference by the supervisor?
46. Does the supervisor talk with members at the members' work places as well as at his own?
47. Is the supervisor in close enough touch with his group's work to know when something goes wrong?
48. Do supervisors maintain composure under pressure for production?
49. Does management encourage delegation of responsibility by permitting supervisors to obtain detailed information from their subordinates, rather than expecting them to have it always immediately available?
50. Does the supervisor foresee possible future emergencies and prepare for them?
51. Does the supervisor encourage innovation and originality by accepting new approaches, and does he adapt readily to better methods?
52. Are relations among members amicable, and do they help each other in emergencies?
53. Do members take pride in their work to the extent of policing the conduct and productivity of fellow employees?
54. Do supervisors foresee their personnel needs and plan for them by training members for responsibilities beyond their immediate positions?
55. Does the supervisor maintain familiarity with economic and other external conditions which may affect performance?
56. Does the supervisor, whose position so requires, arrange his affairs in order to have uninterrupted time for external affairs?

PART 2

THE PROCESSES OF MANAGEMENT

The classifications which follow divide the processes of management into four main groups: (1) operating, (2) auxiliary, (3) service, and (4) planning and control. (This classification is not to be confused with the classical distinction between line and staff. The line-staff division, for reasons discussed above, is not used here to differentiate the activities of an organization.) Each of these broad groups is in turn divided into areas, the areas into activities, and the activities into functions.

There are many ways in which business activities can be grouped, and in actual practice they are combined in various ways. Groupings employed in the following lists seem logical for purposes of this discussion, but there is nothing absolute about them. In actual practice, too, activities which are listed separately here will often be combined.

The listings cover a wide range of business enterprise, and not all activities described here would be found in the same form in every business. In retail merchandising, for example, there would be little need for engineering and production; and the merchandise activity treated here as part of sales might be a major operating segment. In

other instances, it may be desirable to combine purchasing, traffic, inventory planning, warehousing, and property management in a materials department. Likewise, commercial planning could be a part of the sales department; and research, of the production department. A single relations department might include all public and employee relations on the theory that these relationships are so interrelated as to require direct coordination. Also, in a pharmaceutical company, quality control may become a separate unit on a par with sales and production.

The listings assign responsibility for work methods to two different units: industrial engineering (in Production), and procedures and methods (in Service). Industrial engineering is located in Production for two reasons: *first*, because of the volume of such work required in Production, and *second*, because of the continuous nature of the activity in direct application to the production process. Procedures and methods provides a service similar to industrial engineering for all other segments of the enterprise.

Also assigned to two separate units are product planning (found in both Sales and Planning) and facility planning (found in both Production and Planning). In these cases, Sales and Production develop current programs, and Planning develops future plans.

Planning as outlined in Chapter 1 provides a focal point for the coordination of all company-wide planning. It brings the facts of the past and the present into focus upon the projected future and establishes a framework for specific operating programs.

A new term, "operations research," has come into use in recent years. In general, operations research investigates and measures operating systems, calculates the measurable dimensions of management problems, and attempts to predict results. It is a composite consideration of a problem based upon scientific analysis, usually employing mathematical appraisals—a bringing together of commercial, production, technological, economic, financial, legal, and other phases of business activity bearing on the analysis and solution of a given problem. In the development of a new product, for example, operations research takes a composite look at such considerations as available markets, displacement of present products, ability to produce at a marketable price, potential profit margins, patentability, and organizing and staff-

ing to produce and market the new product; and it measures the pertinent factors in each of these considerations.

Operations research could be applied to a wide segment of the business enterprise, particularly to the types of programs outlined in the planning segment. In the following listings, operations research is not treated as a separate activity in the belief that its contribution is a method or technique to be applied to a wide range of business operations and is not a distinct activity in itself.

There is no attempt to classify the major and minor functions within each activity. For example, in Economic and Market Analysis under Commercial Reseach there are these statements: "estimates demands for new products" and "measures and analyzes consumer motivations and consumption habits." The latter function could be a subhead of the former, since it would be one of the ways to accomplish the former; but the latter function could also be applied in other situations: measuring demand for existing lines, for example.

The emphasis of functions in the various activities will vary as these activities mature or as conditions in the enterprise change. For example, the nature of advertising changes as it becomes more successful. In its first stages it arouses a desire for its company's products, and it usually does this by emphasizing the product's inherent value and utility. As the product becomes established, and as competitive products appear, advertising must attempt to attach some particular value —prestige, perhaps—to the ownership of the product. Such a change in emphasis will change the function and structure of the advertising activity.

The following listings do not attempt to cover the ranges or levels of management. For instance, if there are several plant superintendents in production, an additional supervisory level between these superintendents and the top production management may be necessary. But such additional supervisory levels do not entail new functions and thus do not affect the basic functional classifications.

Organization charts accompanying the text illustrate typical structures, or in some cases—as with the first chart shown—merely group the various activities according to their nature or purpose without intending to suggest an actual organization structure. Activities on these

charts could be eliminated, regrouped, consolidated, or modified as conditions require. It may be desirable, for example, to locate traffic in production, to combine public relations and personnel, to separate advertising from sales, or to change the organizational location of any of a score of other activities (see discussion on organization alignment immediately below).

In several instances, alternative methods of organization are suggested. For example, the basic organization unit in production could be a product or product group, a geographical territory, a process, a facility, or a consuming industry.

ORGANIZATION ALIGNMENT

The exact arrangement of activities in any particular enterprise will depend upon a number of factors: (1) the type of business (retail, distributing, manufacturing); (2) the scope of its operations (geographical dispersion, sales volume); (3) external market conditions (buyers' market, sellers' market); (4) internal personnel limitations (caliber of management, technical competence); (5) scope of the individual activity (if it serves the total organization, it is generally better that it not be a part of one department); (6) relationship of functions (if the functions of one unit are closely related to the functions of another, the two units should be organizationally linked, and if they are incompatible, they should be separated).

There are some activities on which practice will vary considerably. Engineering, for example, could be included in the manufacturing department. In some situations it could be a separate department. Then, too, there will always be cases where one organization unit must absorb several types of functions. Following are some activities which could be assigned in several different ways.

Purchasing

If purchasing serves all units of the enterprise, it should be established as a separate unit. If it is made a part of any one organization unit, its ability to serve the total organization is restricted. Where purchasing serves mainly the sales function (as in a department store) or

the production function (as in a manufacturing company), the purchasing activity could be assigned to the appropriate department. In the normal situation, however, purchasing should be independent of all other units if it is to serve the best interests of the total organization.

Traffic

Traffic, like purchasing, should be a separate unit if it serves the total organization. Again, if traffic serves one department exclusively, it might be desirable to place it in that department. In the normal case, however, a separate traffic unit assures the most satisfactory service to all departments.

Inventory Control

Inventory control might be assigned to sales on the ground that the sales department knows best what inventory can be sold. In most cases, however, the best practice is to separate inventory control from direct sales. (See Case IV in Chapter 3 above.) Sales should provide data on market conditions and should have a key part in determining inventory requirements, but it should not be required to make the final determinations of types, kinds, and levels of inventory. This determination requires a balanced analysis of production, supply, financial, and other conditions, better achieved outside the sales activity.

Inventory control is sometimes placed in the accounting department. If the inventory problem were a matter of arithmetic formulas and accounting records, such an assignment might be justified, but inventory planning is much more than this; it entails production, finance, purchasing, and other considerations. The accounting department has a responsibility for inventory records and for taking physical inventories, but it is not always in the best position to appraise the nonfinancial considerations in inventory planning.

Materials Department

One of the most significant organization developments in recent years has been the combination of purchasing, traffic, warehousing, and stores (and perhaps inventory control) into a single department. Such coordination of essential supply activities may permit better

service to the total organization. The flow of supplies can be more closely tied to inventory requirements and warehousing facilities, and the flow can be scheduled to take advantage of available transportation equipment. A consolidated materials department can make a significant contribution to effective management where close coordination of these supply activities is vital.

Industrial Relations

The staffing responsibility, discussed above in Chapter 5, embraces many activities often referred to as "industrial relations." Some companies favor having a personnel unit in each department on the ground that intimate association with a department's individual needs permits greater service to that department. This arrangement seems to work satisfactorily, but in such cases there should also be a central personnel agency for company-wide services and for establishment of company-wide personnel policies.

Salary Administration

Salary administration establishes a range of salaries and relates every position to that range. Salary administration is not a financial problem alone; it is a problem of management judgment applied against a complex of factors, including availability of personnel, technical proficiency, supervisory relationships, and competitive conditions.

Some companies place salary administration in finance departments. The determination of proper prices for materials and equipment is not exclusively a financial matter; neither is the determination of prices for human service. The salary rate is established for the purpose of getting a job done. It should reflect the relative worth of that job, and the salary structure should provide for some recognition of individual performance.

The salary administration activity is usually found in either a finance department or an industrial relations department, but there is a growing recognition that compensation structures are so closely related to the basic framework and structure of an enterprise that they should be developed in conjunction with other basic business planning activities.

Consequently, Salary Administration is more and more being attached to the general organization or business planning activity.

Quality Assurance

Since quality assurance is an audit of production, one might think that it should be independent of a production department. If quality assurance is thought of as merely a means of checking the quality of products coming off the production line, this assumption is correct. If, however, quality assurance is considered in its true light—as a means of assuring production quality by establishing quality standards—the quality assurance activity is part of the production process. Since it does conduct spot audits of finished products, it should be divorced from the actual production line, but there is no particular necessity for a complete separation from the production department itself (unless, of course, the production department consists solely of a production line).

There may be extreme cases, as in a pharmaceutical company, where the significance of quality assurance justifies a completely separate department. Where a technical research department exists, it might be given the quality assurance responsibility, especially when it establishes the quality standards and prescribes the testing equipment for final inspections.

Safety

The safety unit is concerned with establishing and maintaining safe working practices and with educating employees in these safe practices. The hazards to personal safety in most companies occur primarily in production, and for that reason some companies place safety in the production department. Also, it is felt that safety belongs in production since safety programs require familiarity with technical problems.

The personnel department, on the other hand, with its interest in employee welfare programs may be the logical place for the safety activity. Also, if safety is placed in Personnel, it is in a better position to serve all departments.

Product Development

Product development requires a coordinated effort. If there is a special planning unit (as outlined in Chapter 11), this is the logical place for coordinating all product development. But without such a planning agency, the coordinating responsibility could rest either with sales or with production. Or each department may require a product development activity, with sales coordinating one type of product development and production coordinating another.

Organization Planning

When organization planning was new and when its purpose was incompletely understood, it was often assigned to personnel. Structure, it was felt, must adapt to the people you have; therefore, organization planning became a form of personnel planning. While it is true that organizations must adapt to available personnel, the primary purpose of an organization plan is to determine those activities necessary for success, to provide a proper balance of all activities within a structure, and to determine the degree of authority required in each activity. If the structure is proper, people should be found to staff it; the structure should not—in the long run—be distorted to accommodate inadequate personnel.

Organization planning can be carried out in two ways: first, with one unit at the top serving the entire organization; second, with a unit at the top and another in each major department. If departmental units are used, the top unit can prescribe the basic patterns within which departmental units operate.

Financial Organization

In most business organizations the chief executive has complete charge of the company's affairs. He has full authority over all organization components required for the company's activities. Since he has jurisdiction over all phases of the operation, the president is held accountable for the total effort.

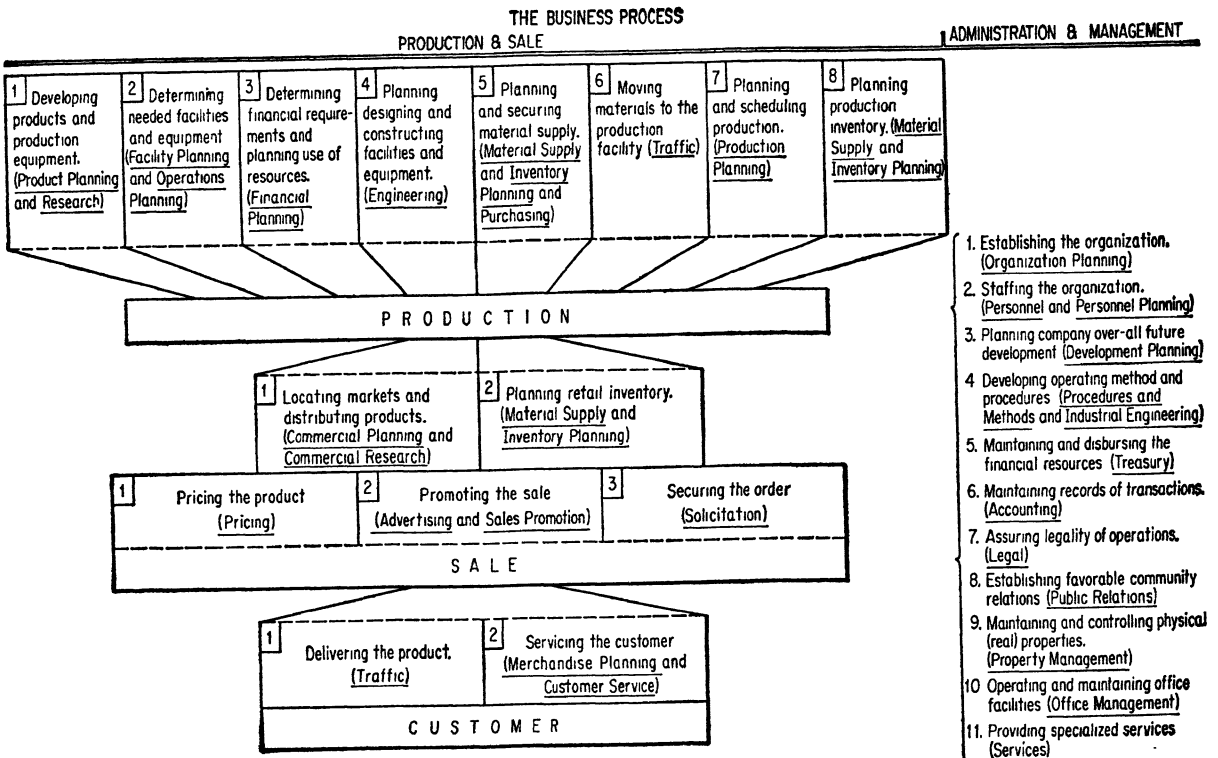
The president coordinates the various parts of the enterprise as

operations require, and he directs all activities in the best interest of the total enterprise. If, for example, sales considerations require a flexible interpretation of credit policies for commercial advantage, the president is in a position to authorize a deviation. Financial services are at least as important as purchasing or personnel, and the president should use them just as he might use any other activity to fulfill the purposes of the enterprise. The annual audit (normally by a public accounting firm) gives a board of directors an independent review of the president's performance.

Some organizations separate accounting and treasury activities from the president's responsibilities. The advocates of this system point out that this gives the board of directors a continuing check on the president through independent accounting. This system presumably also frees the president to concentrate on the production and sales activities.

The practice of separating financial activities from other segments of the enterprise rests upon a misconception of their proper function in the business organization. Financial management is auxiliary to production and sale, and it exists to assist them—not they to assist it. The purpose of business is to serve a market, not to account for its money. While it is true that finance deals with the money which keeps the wheels turning, it is also true that personnel deals with the manpower. Finance and personnel—and purchasing and traffic also—exist for one reason and one reason only: to serve the company's primary purposes. Thus, they must be subordinate to the primary elements of production and sale, and the chief executive officer should have full control of all elements.

There is yet another reason why the financial functions of a business should be retained within the chief executive's jurisdiction. When finance is separated from the others, the board of directors is forced to become an administrative body, coordinating financial affairs with all others. The organization's purposes are better served if the board has one officer to whom it can look for coordinating the entire operation. The board may check on the chief executive's stewardship through its independent audit.


THE BUSINESS PROCESS
PRODUCTION & SALE
ADMINISTRATION & MANAGEMENT
1 Developing products and production equipment. (Product Planning and Research)
2 Determining needed facilities and equipment (Facility Planning and Operations Planning)
3 Determining financial requirements and planning use of resources. (Financial Planning)
4 Planning designing and constructing facilities and equipment. (Engineering)
5 Planning and securing material supply. (Material Supply and Inventory Planning and Purchasing)
6 Moving materials to the production facility (Traffic)
7 Planning and scheduling production. (Production Planning)
8 Planning production inventory. (Material Supply and Inventory Planning)
PRODUCTION
1 Locating markets and distributing products. (Commercial Planning and Commercial Research)
2 Planning retail inventory. (Material Supply and Inventory Planning)
1 Pricing the product (Pricing)
2 Promoting the sale (Advertising and Sales Promotion)
3 Securing the order (Solicitation)
SALE
1 Delivering the product. (Traffic)
2 Servicing the customer (Merchandise Planning and Customer Service)
CUSTOMER
1. Establishing the organization. (Organization Planning)
2. Staffing the organization. (Personnel and Personnel Planning)
3. Planning company over-all future development (Development Planning)
4 Developing operating method and procedures (Procedures and Methods and Industrial Engineering)
5. Maintaining and disbursing the financial resources (Treasury)
6. Maintaining records of transactions. (Accounting)
7. Assuring legality of operations. (Legal)
8. Establishing favorable community relations (Public Relations)
9. Maintaining and controlling physical (real) properties. (Property Management)
10 Operating and maintaining office facilities (Office Management)
11. Providing specialized services (Services)

CLASSIFICATION OF FUNCTIONS

In the following four chapters the functions of major activities found in the manufacturing-type enterprise are listed in some detail within the following outline:

1. Responsibilities common to all supervisory positions
2. Board of directors
3. Top executive officer
4. Executive committee
5. Operating (line)
   - *a.* Production
   - *b.* Sales
6. Auxiliary
   - *a.* Engineering
   - *b.* Finance
     - (1) Treasury
     - (2) Accounting
   - *c.* Purchasing
   - *d.* Traffic
   - *e.* Personnel (employee or industrial relations)
7. Service
   - *a.* Legal
     - (1) Law
     - (2) Secretary
   - *b.* Research
   - *c.* Public relations
   - *d.* Services
   - *e.* Property management
   - *f.* Procedures and methods
   - *g.* Office management
8. Planning and control
   - *a.* Organization planning
   - *b.* Product planning
   - *c.* Facility planning
   - *d.* Operations planning
   - *e.* Material-supply and inventory planning
   - *f.* Financial planning
   - *g.* Commercial planning
   - *h.* Human-resource planning
   - *i.* Development planning
   - *j.* Production planning

1. Responsibilities Common to All Supervisory Positions

- Recommends policies; interprets and disseminates approved policies; appraises adequacy, effectiveness, and application of policies; and acts to assure enforcement of approved policies
- Plans, recommends, and maintains the objectives, organization structure, personnel requirements, operating methods, performance standards, procedures, facilities and equipment, and budgets required to perform assigned activity
- Plans and recommends the future development of assigned activity
- Coordinates assigned functions internally and with all related company activities
- Controls results in relation to established objectives, evaluates performance against the established standards, and initiates corrective action where necessary
- Interviews and selects personnel; provides for personnel training, development, rating, and remuneration; and fosters the development and maintenance of sound physical and mental health
- Supervises reporting personnel and sees that they are provided with safe working conditions, facilities, equipment, and supplies required for the conduct of their activities
- Delegates authority to subordinates to assure sufficient time for general management responsibilities and the maximum utilization of subordinates' capacities
- Conducts or arranges for the conduct of meetings and conferences as required for the execution of assigned responsibilities
- Collects, develops, and maintains such data and source material as may be required in the conduct of assigned responsibilities
- Maintains records and files necessary to the accomplishment of assigned responsibilities
- Provides service, data, reports, instructions, and recommendations to other persons whose functions relate to or affect the assigned responsibility
- Maintains contacts with others both inside and outside the or-

ganization as may be necessary and approves release of information about assigned responsibility

- Keeps informed of competitive practices, of new developments, and of progress in assigned responsibility
- Keeps informed of existing and proposed government laws and regulations relating to assigned responsibility, appraises their effect on company operations, and sees that appropriate action is taken to assure compliance with government laws and regulations

2. Board of Directors

- Establishes policy and approves plans on company organization, personnel, finances, production, sales, and management
- Establishes and approves policies and programs for company development
- Establishes and approves programs for company financing
- Determines size of the board
- Establishes corporate relationships with subsidiaries and affiliates
- Selects top company officers and determines their salaries
- Approves employee compensation plans
- Approves employee benefit plans
- Manages company income, including the declaration of dividends
- Authorizes establishment of working-fund accounts
- Establishes working capital and overhead–operating-cost ratios
- Selects depositories for company funds
- Selects public auditing firm
- Establishes standards for auditing company accounts
- Approves operating budgets
- Establishes pricing policies
- Establishes procedure for handling appropriation requests and approves appropriations within designated limits
- Establishes procurement policies
- Approves credit policies and terms and conditions of sale
- Establishes insurance policies

- Appraises company performance
- Initiates bylaw amendments
- Approves form of stock certificates
- Establishes rules for stock transfer and registration
- Renders annual report to stockholders

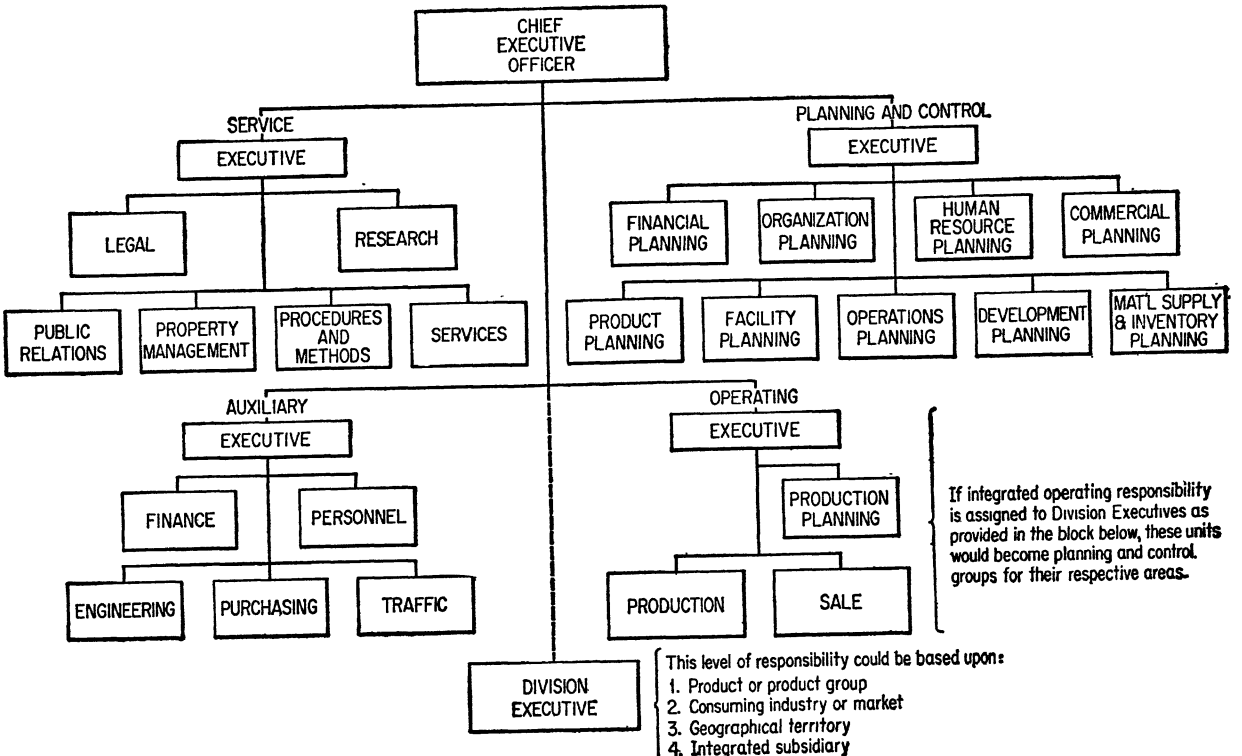
3. Chief Executive Officer

- Formulates basic operating policies within established company policy
- Formulates basic organization structure
- Formulates basic employment and compensation plans within established company policies, including incentive plans
- Administers company finances and financial controls
- Prepares operating budgets and submits to board of directors for approval
- Administers company production and sales activities
- Administers company traffic and movement services
- Administers company procurement activities
- Establishes pricing schedules within established company policies
- Establishes policies on bid and cash purchasing
- Establishes policies on level of investment in inventory
- Authorizes acquisitions, additions, alterations, replacements, maintenance, construction, expansion, rehabilitation, and disposal of physical properties within designated amounts
- Selects subordinate company officers
- Establishes policies for and directs stockholder, government, civic, industry, and other public relations
- Plans company growth and extension of business into new areas and withdrawal from existing areas
- Keeps abreast of general economic conditions and appraises their effect on company policies
- Keeps abreast of other company growth and development and of mergers and consolidations in competitive companies and related industries

- Signs contracts, bonds, deeds, and other documents required in operating the business

4. Executive Committee

- Approves basic operating policies
- Approves basic organization structure
- Approves employment and compensation plans
- Approves standard work forces
- Establishes profit margins and wholesale and dealer margins
- Recommends credit policies and terms and conditions of sale to the board of directors
- Approves appropriations within designated limits
- Approves current production and sales plans
- Approves pricing schedules
- Determines company product mix and facility allocations
- Approves additions, deletions, or changes in the product line
- Approves dealer-company agreements
- Approves opening of sales territories
- Approves sources of supply
- Approves traffic and movement services
- Establishes policies for the handling of complaints and claims and approves claims within designated limits
- Approves acquisitions, additions, alterations, replacements, maintenance, construction, expansion, rehabilitation, and disposal of physical properties within designated amounts
- Approves construction plans, location, and size of designated type of facilities
- Establishes desirable ratio between new and old facilities
- Determines capacity ratios between different types of facilities
- Reviews and recommends programs for company development


CHIEF EXECUTIVE OFFICER
SERVICE
EXECUTIVE
LEGAL
RESEARCH
PUBLIC RELATIONS
PROPERTY MANAGEMENT
PROCEDURES AND METHODS
SERVICES
PLANNING AND CONTROL
EXECUTIVE
FINANCIAL PLANNING
ORGANIZATION PLANNING
HUMAN RESOURCE PLANNING
COMMERCIAL PLANNING
PRODUCT PLANNING
FACILITY PLANNING
OPERATIONS PLANNING
DEVELOPMENT PLANNING
MAT'L SUPPLY & INVENTORY PLANNING
AUXILIARY
EXECUTIVE
FINANCE
PERSONNEL
ENGINEERING
PURCHASING
TRAFFIC
OPERATING
EXECUTIVE
PRODUCTION PLANNING
PRODUCTION
SALE
If integrated operating responsibility is assigned to Division Executives as provided in the block below, these units would become planning and control groups for their respective areas.
DIVISION EXECUTIVE
This level of responsibility could be based upon:
1. Product or product group
2. Consuming industry or market
3. Geographical territory
4. Integrated subsidiary

8. OPERATING

The Operating group and its activities are the "firing line" where the organization carries out its primary purpose. Operating could include research, engineering, finance, or other activities, depending on the nature of the enterprise. For convenience of description in this chapter, Operating includes only production and sale.

PRODUCTION

The production effort brings together the necessary men, material, machinery, and tools to create a product or service.

As in the basic organization of the enterprise itself, there is within production a natural division between those activities which are directly related to the production of goods or services and those which are only indirectly related. In the *first* category would be the fabricating, assembling, processing, treating, and shipping of products or the design and engineering of services which the company offers for sale. In the *second* category would be the planning of material and facility needs, analysis and development of methods for the efficient utilization of these materials and facilities, the control of quality, and maintenance and repair.

Direct Production

Direct production activity can range from the extraction of ore to the stamping of a razor blade, from the manufacture of a giant earth-moving tractor to the assembling of a transistor radio. But whatever its form, the purpose of production will always be to provide the enterprise with a product or service for offering in the market place.

Aggregations of production resources vary tremendously with the size of the market, types of raw materials and finished products, and production methods. On the one hand are the gigantic integrated enterprises of steel, automobiles, chemicals, and utilities, embracing the extraction or accumulation of basic raw materials, the processing of goods and services, and fabrication of consumer products. On the other hand are the small shops manufacturing red glass reflectors for automobile tail assemblies or those amazing plastic containers for the modern drama of merchandising. But underlying all of it is a universal common denominator: the inexorable whir of wheels and unending flow of a *product* or a *service* which will meet some human need and be consumed, only to be produced and consumed again. The wisdom with which the product is used and the efficiency with which it reaches the market place are of no concern at this point. Production at less and less cost and with less and less waste is the creed of the producer. It is for other hands to determine the quality of its use. The producer's mandate is simply to produce!

But as we have seen, organization has no life without balance, and balance means the combined effort of many, not the dominant force of a few. The rise of "scientific management" has brought a whole new arm of services to speed and expedite production processes.

Service to Production

The services to production provide both an added ingredient of efficiency to the productive process *and* a bridge to the other segments of the enterprise.

Facility Planning. The steps in facility planning are described above in Chapter 1. It suffices to say here that production must be the focal point to develop long-range facility plans as well as to secure the most

efficient production from existing facilities. This means continual attention to the maximum utilization of equipment, material, and space.

Materials Management. Materials management aims to see that inventory levels are sufficient to assure uninterrupted work flow, that they are acquired and stored in the most efficient and economical manner, that they are utilized to their utmost, and that suppliers are encouraged constantly to improve their products. Effective materials management assures that materials are on hand when needed and in the proper quantity and quality.

Industrial Engineering. The industrial engineer seeks ways to improve the efficiency and quality of production through study and analysis of present practices and technological improvements. Admittedly, his avowed purpose is to cut costs and reduce production expenses, and his proposals sometimes put him at cross-purposes with those who resist "speed-ups." Viewed in its proper perspective, industrial engineering need not result in any hammer-and-tongs controversy. People have grown accustomed to displacements resulting from technological and market changes; and if members have seen evidence of sound management planning, they welcome changes as their greatest assurance of future security and stability.

Industrial engineering, then, becomes one of the instruments for change which keep the enterprise dynamic and assure its future progress. It does this through more or less precise measurement of work practices and methods, and it attempts to make individual jobs safer and more efficient. Industrial engineering has been criticized for its effort to divide work into very minute parts and for the resulting assembly-line humdrum. More recent efforts at job measurement are aimed at job enlargement and greater utilization of individual capacities. At the same time, advancing technology is helping to counteract the dreary and monotonous assembly lines.

Industrial engineering, then, contributes to the production process by assuring the producing member that his job will continue to be a vital part of a continually developing enterprise.

Quality Assurance. Quality assurance establishes adequate and attainable quality standards and inspects to see that actual production meets these standards. It must be alert to the opportunities and needs

of the market place and must know what the customer or potential customer requires. In collaboration with the individuals responsible for actual production, it should insist on the highest levels of performance which the company's technology permits. After standards are set, it becomes the responsibility of quality assurance to see that they are met: this it normally does through inspection of materials.

But quality assurance goes further than establishing standards and controlling deviations from these standards. It attempts to determine the causes of standard deviations either through analysis of supplier weaknesses or inspection of rejected materials. It then attempts to develop methods or policies for overcoming these causes. Perhaps the supplier's product has a defect which is not apparent in processing or tooling but which causes breakdowns in use. Or perhaps working conditions in the plant are conducive to production errors. The knowledge required for effective quality assurance extends to familiarity with production methods, materials, customer requirements, competitive materials, technology, and methods of product distribution.

Maintenance. The efficient use of facilities requires not only that they be fully utilized, but also that they be maintained in satisfactory working condition. Thus, the aim of maintenance should be to establish those conditions which permit the producer to give the job his undistracted attention. In short, maintenance should seek opportunities for improving production through proper maintenance.

Viewed as a positive aid to production, maintenance becomes a vital part of the production process, not a mere appendage for cleaning up the debris and getting rid of the rubbish. The author can recall a machine shop, for instance, in which the maintenance foreman looked upon himself as an assistant to the machine operators. He became familiar with the operators' methods and observed their work habits. He experimented with different types of paint and cleaning materials which he thought would help the operators, and he set rigid standards for the custodians to remove all traces of waste and scrap—moving the empty lath settings if necessary to clean the machines and inspect for worn or broken parts. Needless to say, the shop was a showpiece for the company and a delight to the machine operators, as well as being one of the most productive shops in the company.

Service to Sales

Another very important service of production is that of product assistance to the sales department. Such assistance serves two purposes. *First,* it aids salesmen with technical product problems or product service in their dealings with customers. *Second,* by keeping abreast of customer reactions and serviceability of products, production can find ways of improving its own manufacturing methods.

Typical Functions

1. Management
   - Evaluates existing production methods and recommends changes in production policies
   - Establishes production methods and procedures
   - Establishes standards for the production process and for maintaining quality
   - Coordinates the operation of raw-material and finishing facilities
   - Negotiates the acquisition of patent, design, or process rights
   - Executes instruments required in the process of production
   - Authorizes disposal of surplus, obsolete, or below-quality material
   - Collaborates in the planning of new products, facilities, and equipment, or their replacement, scrapping, or sale
   - Recommends facility acquisitions, additions, alterations, replacement, maintenance, construction, expansion, rehabilitation, and disposal
   - Advises in the formulation of programs for future company development and in the appraisal of proposed acquisitions
   - Advises in the formulation of conditions of sale
2. Facilities (by type of facility)
   - Develops plans for the most profitable loading and utilization of facilities
   - Establishes facility production objectives
   - Assists the plants in design changes to improve performance and efficiency and to prolong life of facilities
   - Advises with plants on current operating problems, facilities, production, quality, and manufacturing practices and costs

Advises on the construction and design of proposed facilities and collaborates with others in the development of future plans

Advises on the retirement, rehabilitation, or scrapping of facilities and prepares justifications for facility appropriations

Recommends priorities of facility action

Maintains current information on design, layout, material, production, cost, quality, and general operating problems of assigned facilities

Appraises repair and maintenance projects for conformity with current facility plans

Appraises possible changes in raw materials as these may affect facility needs

Advises on insurance requirements and exposure to insurable losses

Advises on requirements of facility layouts in the planning of new products

3. Packaging and loading

Collaborates in the development of packaging tools, equipment, and methods

Analyzes requirement and develops plans for packaging and loading methods

Advises on packaging and loading requirements in the planning of facilities

Prepares manuals of packaging and crating instructions

4. Materials management

Directs and coordinates the distribution and inventory maintenance of materials and fuel required for production and maintenance

Prescribes unloading, storage, and reloading methods

Directs the reclamation of industrial waste and refuse and disposes of such reclaimed waste

Determines types, quantities, and qualities of basic raw materials required for given periods

Analyzes the use of materials and fuel and appraises possible new materials and fuel and new sources

Recommends production practices designed to utilize most fully the maximum potential of materials and fuel

Forecasts requirements of future material and fuel needs

Advises in the establishment of material and fuel specifications and inspection standards

Advises purchasing and internal sources of raw materials of material and fuel requirements

Analyzes and appraises material rejections

Advises on materials management requirements in the planning of facilities

Receiving and stores (warehouses)

Receives, stores, and maintains custody of incoming shipments

Packages supplies when required

Supervises withdrawal of supplies for production and assembly

Maintains approved inventory levels

Takes physical inventories

Recommends disposal of obsolete or returned materials

5. Product service

Provides technical guidance to the sales department for the servicing of customers' product requirements

Consults and advises on technical product matters

Reviews the performance of produced products

Investigates complaints and claims and recommends their settlement

Recommends manufacturing and quality-control methods and procedures

Collaborates in the development of new products or improvement in existing products

Advises on the development of new processes

6. Industrial engineering

Develops programs for proper balancing of capacities, production flow, material handling, location of work stations, and types of controls

Describes and applies measurement standards for utilizing property, material, equipment, and personnel

Establishes productivity and efficiency standards for production equipment

Determines and applies methods and practice for use of property, materials, equipment, and personnel

Determines and applies labor standards and incentives

Develops plant layouts

Determines and applies waste-reduction methods

Develops and recommends standard work forces

Recommends wage-incentive and job-evaluation plans

Recommends standards for the budgetary control system

Recommends improvements in production methods

Develops economic justifications for proposed changes in production methods

Conducts time and motion studies

Analyzes work flow

Develops job content and classifications for production positions

Measures operating performance and compares productivity of different facilities

Forecasts production rates of operating units

Advises on industrial engineering matters in the planning of facilities

Advises on the selection of office equipment and machinery

7. Quality assurance

Examines specifications of products required by customers

Develops raw-material, goods-in-process, and finished-goods standards and specifications

Disseminates approved specification standards to the proper personnel

Maintains standard samples of products which conform to authorized quality

Develops and procures inspection and testing methods and devices and determines points at which inspection is required

Reviews orders to assure proper quality entries on the order form

Inspects raw material, goods-in-process, and finished goods for conformance with specifications

Controls approved deviations from standard specifications

Appraises compliance with previously discovered irregularities
Inspects all defective products returned from customers to determine source of error
Investigates and analyzes complaints of quality or performance
Reviews production methods and procedures and recommends improvements as necessary
Recommends improvements in working conditions which may affect quality
Recommends improved processes or products or changes in raw materials
Reviews and recommends identification devices on finished products
Appraises packaging and shipping methods as they may affect quality
Maintains familiarity with plant facilities, limitations, and processes
Collaborates with purchasing concerning suitability of products to be purchased
Proposes new or revised product specifications
Advises on quality-control matters in the planning of facilities
Appraises quality of competitors' products

8. Plant management

Directs the operation and maintenance of assigned facilities
Plans and controls over-all production plans to meet current objectives and alters plans as required by facility breakdowns or market conditions
Approves and establishes production schedules
Makes authorized changes in processing, fabricating, assembly, and other production matters
Directs the allocation of raw materials among facilities
Approves plant and other facility layouts
Recommends facilities budgets and approves facilities budgets within authorized limits
Collaborates in the development of facility acquisitions, additions, alterations, replacements, maintenance, construction, expansion, rehabilitation, and disposal

Recommends the acquisition of patent, design, or process rights

a. Plant engineering

Prepares plans and specifications for plant layouts, buildings, machinery and equipment, construction, alterations, and installations

Selects equipment of specified types

Maintains plant maps

Develops plans and methods for plant maintenance

Prepares annual facilities budgets

Assists in long-range planning of facilities

b. Industrial engineering

Applies industrial engineering methods at the plant level

c. Production planning

Receives and schedules orders on production facilities and establishes date of shipment to customer

Acknowledges receipt of customer inquires and orders to the sales unit

Coordinates production with plans of other plants and with headquarters

Controls production inventory

Develops methods for production control

d. Facility protection

Maintains necessary protection of payroll funds and their transportation

Maintains protective custody over plants and facilities

Protects facilities from hazards of nature or breakdowns of equipment

Supervises watchmen and guards

Maintains contact with law enforcement agencies

e. Facility maintenance

Repairs and paints and otherwise maintains buildings, equipment, and machinery

Installs machinery and equipment

Installs safety devices

Operates and maintains plant utility services, including power production facilities

Develops, maintains, and operates air- and stream-pollution controls

Maintains hygiene and sanitary facilities

Tests, treats, and disposes of plant wastes

Maintains supply of spare parts and mechanical supplies

f. Production

Fabricates or machines components

Establishes materials specifications

Operates assigned raw-material facilities

Conditions raw materials for use

Schedules priority and sequence of production by machine or station

Tests and inspects finished products or materials

Manufactures and stores tools, dies, jigs, fixtures, patterns, gauges, and other equipment

Provides machinery service for maintenance and repair

Advises on the use of materials in the development of new products

g. Assembly and finishing

Assembles components into finished products

Places final finish on completed product

Schedules assembly facilities

Tests and inspects finished products

Wraps, crates, and packages assembled and finished products

h. Shipping

Receives and maintains custody of finished components or materials

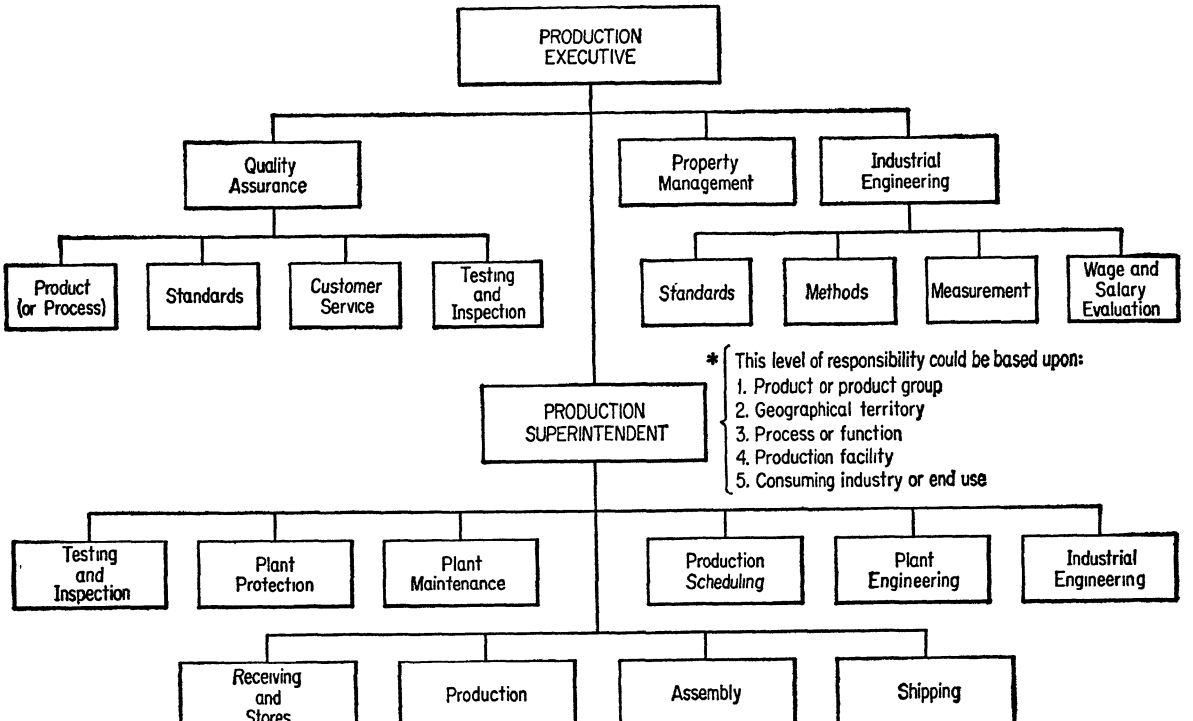
Packages, checks, and loads components or materials

Prepares shipping labels and handling instructions for carriers

Schedules shipments of finished products or materials

Furnishes shipping promises as required

Prepares and renders shipping invoices



* Industrial Relations and Accounting appear on the Personnel and Comptroller Charts.

SALES

The objective of a sales department is to distribute the products and services of the enterprise at an adequate price and in sufficient volume to yield a fair profit to the enterprise. "Marketing"—a term commonly used to describe the sales effort as it is defined here—has been described as a philosophy of conducting business by which all business decisions are made with a full awareness of the customers' needs for products and services and of the necessary means for satisfying these needs.

Sales—or marketing, or commercial, or whatever other name it may be called—divides into two parts: *first,* those activities directly connected with soliciting an order and servicing that order from its receipt to its final delivery; *second,* those activities which arouse the customer's interest and entice him into the fold, which identify the markets and plan the solicitation programs, and which assure the company's continued commercial development, through total commercial planning: in short, the presolicitation activities.

The sales activity, perhaps more than any other, has been profoundly affected by an increasing specialization of indirect services. Gone is the day of the drummer who tours the highways and byways in search of customers who may be only vaguely conscious of his wares. The salesman today is preceded by a barrage of publicity the likes of which the drummer would not have conceived in his wildest flights of fancy. Indeed, in many industries and for some products, the advertiser and promoter have completely replaced the salesman.

Direct Solicitation

The first and foremost aim of the solicitation effort, of course, is to obtain an order for a product or service on the terms most favorable to the company, consistent with the customer's satisfaction and potential repurchase. The salesman stimulates inquiries and orders, and he follows the processing of such inquiries and orders to make certain of the customer's satisfaction and continuing favor.

In many companies the personal contact with customers is very closely controlled, and it is often restricted to a few designated per-

sons. If a particular account is assigned to one salesman, for example, all company contact with that customer would be made either in the presence of, or with the knowledge of, that salesman. Such an arrangement is usually advantageous to the customer. The customer benefits from knowing that he can go to one man for the solution to any matter growing out of his business, and he also usually prefers not to be called on by several different salesmen from the same company. In the very large companies where representatives from several major divisions call on the same customer, you have a little different situation. This is normally to the benefit of the customer, since he knows that each salesman has specialized product knowledge and can thus provide him with full assistance in his product needs. However, even in these cases there can be undesirable consequences resulting from lack of uniformity in applying company policy. A possible alternative to the difficulties of multiple sales representation is discussed below.

The company also benefits from establishing a single point of customer contact. The salesman handling one account knows the customer's problem more intimately, and the company is able to concentrate its total resources through one point in cultivating a single account. Here, too, however, the customer's main concern is adequate service, and if it takes several salesmen to give him the service he needs because of a diversified product line, he will accept the inevitable.

Service on inquiries and orders is largely a clerical function, but it requires a sales orientation and a recognition that the company's success rests upon a foundation of solid customer support. Service personnel should keep abreast of the status of inquiries and orders at all times and should be alert to competitive conditions and potential restrictions in the market place. Getting the order is one thing; servicing that order to assure more orders in the future is quite another. Certainly one is as important as the other.

Service to Solicitation

Product Planning. The product specialist supplements the solicitation group by providing technical product knowledge for the salesman in specific sales situations, by giving concentrated company-wide attention to the most profitable distribution of each product, by uniform and

systematic attention to price structures, and, in some instances, by planning product inventories.

The product specialist would not be a salesman with assigned customer accounts. He would presumably be located in the headquarters sales organization, available for advice and counsel to the salesmen and for planning and control to top management. A coordinated product-planning activity makes possible a broader product coverage at the point of solicitation. The salesman, by being provided with strong commercial and technical support on a wide range of products, is able to carry a broad product line. When he encounters special commercial or other problems, he has a product group upon whom to call for supplementary assistance.

The product specialist keeps abreast of all developments in his products and in turn keeps the salesmen informed on such developments. He provides a company-wide view on a limited product group while the salesman carries a broad product line in a limited geographical area. The product-planning group and the solicitation group complement each other in organizations where the nature of the product lends itself to such specialization.

Commercial Research. The systematic analysis of commercial conditions and market potentials furnishes a base upon which to build a company's over-all marketing programs. Commercial research attempts to discover these conditions and potentials through analysis of market and economic conditions, including such matters as the determination of profitability, the market's accessibility to the company's natural shipping points, the degree and form of competition, the long-range conditions of market and customer growth, and general patterns of consumption. The facts and forecasts thus developed become the basis for solicitation, for sales objectives and quotas, for advertising and sales promotion campaigns, for dealer and sales outlet policies, and for planning the location and product mix of facilities.

Commercial research also analyzes the results of sales promotional programs, using such analyses as the basis for future programs.

Advertising and Sales Promotion. Advertising and sales promotion perform the first two or three steps in the traditional five steps of a sale. They arouse the customer's interest, they present the virtues of the product, and they establish the integrity and reliability of the

seller. For many products, advertising and sales promotion carry the transaction through all five steps to a completed sale. The customer is the advertisers' target, and advertising requires a fundamental knowledge not only of the market place but of the products' acceptance in that market.

Advertising and sales promotion extend beyond a cultivation of the obvious market and reach into the creation of new markets. It has been claimed that a company which extends one product into one new market will realize a net long-range benefit equal to tripling the sale in any existing market. When we talk about a "new market" for an existing product, we mean a group of customers that has never before used this particular product in this particular way. For example, the slide fastener has all but replaced the button as a closure in wearing apparel and is constantly extending into new applications. And the market-development man would probably say, "We have just scratched the surface."

Pricing. If the company's product is to fulfill its purpose, it must yield a price sufficient to maintain the solvency of the company. Any pricing program depends upon a knowledge of the market *and* an adequate cost system. Since the ultimate test of price is the acceptability of a product in the market place, the responsibility for product pricing most naturally falls upon the sales department. The price structure must be sufficiently flexible to meet the conditions of the market and to maintain the company's position in that market while also yielding a profitable return.

Not only must the price for each product meet the conditions of profitability and acceptability; it should be consistent with the company's other prices. Such a structure would recognize necessary differences in profit margins and markups and would take account of turnover rates and product developments as well as production costs and competitive conditions.

Typical Functions

1. Management
   Evaluates existing sales methods and recommends changes in selling policies

Establishes methods for the distribution of company products and the solicitation and servicing of consumers and controls customer contacts by company representatives

Approves sales goals and quotas

Develops and allocates sales territories

Establishes sales-compensation plans

Maintains contact with specified major accounts

Develops and recommends pricing policies

Authorizes specific deviations from established price schedules within company policies

Applies terms of sale to specific products

Collaborates in the development of credit policies and terms and conditions of sale

Determines application of terms of sale to specific products

Executes instruments for the sale of company products

Approves the licensing of patent, design, and process rights

Prescribes policies for the handling of complaints and claims, establishes methods for their investigation and settlement, and approves settlement within designated limits

Collaborates in the planning of new products, facilities, and equipment, or their replacement, scrapping, or sale

Recommends facility acquisitions, additions, alterations, replacement, maintenance, construction, expansion, rehabilitation, and disposal

Advises in the formulation of programs for future company development and in the appraisal of proposed acquisitions

Develops conditions of sale

Prescribes the nature and extent of customer service

Establishes advertising and sales promotion policies

2. Merchandise or product planning

Advises solicitation units in product usage and application and provides assistance to customers

Assists the solicitation units in promoting desirable orders for assigned products

Assists the solicitation units in encouraging secondary sources to specify company products

Receives and analyzes special order inquiries
Determines priority of special order deliveries
Processes special order changes and transfers of orders between facilities
Advises on the adjustment of production schedules to meet order requirements
Keeps abreast of changes in customer's processes, products, and designs
Determines desirable customer accounts
Allots products to customers, establishes product sales goals and quotas, and recommends sales territories
Determines product profitability
Develops and recommends the most profitable product mix
Recommends types, quantities, and locations of products to be placed in inventory and facilities required to maintain the product line
Evaluates production and distribution costs
Determines quantity and time of shipment required to meet sales opportunities
Recommends product prices and, once established, manages the application of prices for assigned products
Approves deviations from prices within authorized limits
Authorizes settlement of customers' complaints and claims within designated limits
Investigates causes of customers' complaints and claims on assigned products and recommends policies for their investigation and settlement
Determines policies for and collaborates in establishing finished goods standards and specifications
Reviews and recommends quality assurance methods
Prepares product sales forecasts
Negotiates licenses for patent, design, and process rights
Collaborates in advertising and sales-promotion programs affecting assigned products
Studies performance of company and competitors' products and distribution

Develops new trademarks

Collaborates in the development of new products or improvements in existing products

3. Commercial research

Data

Develops and recommends principles for the collection and use of statistics

Provides and maintains an adequate collection of organized reference material

Maintains records of consumer requirements

Prepares and disseminates statistics on market conditions

Economic and market analysis

Determines relative profitableness of markets and products

Analyzes merchandising practices and develops sales methods and devices

Determines and measures customer preference

Plans and conducts consumer-requirements surveys

Assists in developing patterns of distribution, product mix, cost and profit objectives, and prices

Estimates demands for new products

Analyzes effects of design, packaging, and physical characteristics of products

Advises on commercial considerations to be taken into account in planning new facilities

Advises on the selection, location, and size of new plants and warehouses from the standpoint of economic and market factors

Measures and analyzes consumer motivations and consumption habits

Determines size of market by industry, product, and customer; forecasts the company's share in the total

Determines and analyzes sales retardants, distribution costs, and sales coverage

Measures and analyzes competitive conditions in the market

Distribution planning

Analyzes distribution patterns and costs

Analyzes distribution of company products, including participa-

tion in consumer requirements (sales goals and quotas), product mix (types, grades, finishes, sizes, shapes, and quantities), and profit objectives

Plans dealer and sales-outlet policies

Plans the establishment of sales quotas and sales territories

Analyzes the competitive position, profitability, and commercial adequacy of existing products

Advises on new product names and package design

Advises on the location, capacities, and product mix of plant facilities from the standpoint of customer requirements

Advises in the scheduling of production to take into account the maximum utilization of facilities to the best advantage of the company

Performance

Establishes sales standards against which to measure performance

Analyzes variations in sales performance from customer to customer and from one period of time to another

Analyzes participation in markets, area by area and customer by customer

Analyzes and appraises effects of market retardants

Analyzes and measures effectiveness of sales strategy, sales presentations, and merchandising practices

Advises on adequacy of the product line and facility location as revealed by sales performance

Advertising research

Analyzes and evaluates new sampling or other statistical data

Analyzes advertising themes and campaigns

Appraises effectiveness of different types of media

Compiles and correlates response to different types of copy and different types of media

Estimates advertising opportunities and requirements of various media, considering the market reached and types of product most suited for the media

Analyzes competitive advertising practices

Analyzes advertising costs and compares results of various media

4. Advertising and sales promotion

Plans direction and emphasis of the advertising effort

Consolidates the company advertising budget
Selects appropriate advertising media
Produces, or arranges for production of, advertising copy, motion pictures, visual aids, and exhibits and displays
Clears advertising copy with interested personnel before placement
Arranges with outside agencies for production of advertising copy and approves suggested layouts
Develops and maintains a direct mail program
Arranges cooperative advertising programs with customers or other producers
Keeps informed of scheduled trade shows and conventions and recommends company participation
Plans participation in trade shows and conventions and conducts such presentations
Arranges consumer entertainment and demonstrations
Conducts education programs on the company's products for the general public
Develops experimental projects designed to broaden the markets for existing products
Plans the use and distribution of motion pictures
Maintains list of trade journals and publications
Designs and compiles manuals and technical catalogs of company products
Advises in the preparation of employee-training and safety literature
Appraises advertising effectiveness for guidance of future advertising policy
Analyzes market retardants and product restrictions as they affect advertising and sales promotion methods
Designs new product packages and recommends new product names

5. Pricing
Analyzes prices from the standpoint of production costs, profit objective, conformance with company policy, effect on other company products, competitive position, and facility location
Develops recommendations on price bases, extras, and deductions

Plans intracompany price relationships
Controls conformance with price policy
Disseminates formal price notifications and instructions
Reviews suggested price changes and deviations
Clears price changes with appropriate departments
Develops and recommends terms and conditions of sale
Develops prices for new products and products of new facilities
Recommends cost and profit objectives
Analyzes competitiveness of prices
Conducts cost-price studies
Maintains current records and histories of all company prices
Maintains records of competitors' prices

6. Store operations
   Performs functions of property management as the circumstances may require
7. Customer service
   Planning
   Establishes consumer-evaluation ratings
   Maintains records on order entry errors and errors in filling orders
   Plans and budgets salesmen's calls
   Recommends sales goals, quotas, and territories
   Plans and conducts sales contests, campaigns, and meetings
   Keeps abreast of competitors' practices and products
   Maintains records on restrictive or constructive legislation as it affects company products
   Recommends the selection of products and their distribution
   Recommends prices on new product proposals
   Advises on customer service requirements in the planning of new products and facilities
   Order service
   Develops and completes scheduling, producing, delivery, pricing, packaging, marking, loading, product quality, and invoicing details on orders, inquiries, and order changes
   Audits orders for accuracy and completeness
   Transmits orders from receiving office to producing unit

Follows orders from original receipt to final delivery
Authorizes special handling of orders
Arranges for changes in production schedules
Develops details for bid quotations
Prepares and audits special contract bids
Advises on application of pricing schedules
Advises solicitation groups on progress of orders
Technical service
Prepares and distributes technical data and instructions
Reviews customers' product specifications and advises on end use
Recommends customers' inventory levels
Reviews customers' complaints and claims and recommends settlement
Reviews adequacy of existing and proposed products
Advises on product design

8. Solicitation
Salesmen (inside)
Services order inquiries and answers customers' questions regarding specifications, quality, detail, inspection, application, and use
Submits quotations and bids
Provides customer with information on prices, extras, terms and conditions of sale, and credit
Solicits orders under special direction
Acknowledges receipt of customer's inquiries and order
Controls order placements in accordance with the established plan of distribution
Enters orders on production facilities in accordance with prescribed procedure
Verifies availability of products and deliveries
Develops delivery dates and makes delivery promises
Specifies grades and other required specifications
Specifies packing, marking, loading, and shipping requirements
Waives regular order requirements on special orders
Distributes orders among available facilities
Arranges for change in production schedules, for transfer of

orders from one facility to another, and for transfer of necessary materials

Makes outside purchases or arranges for outside production when necessary to fill the customer's order

Collaborates with outside salesmen in the preparation of trade and market data

Maintains record on current status of all orders

Receives and records customers' complaints and claims

Suggests new products or improvements in existing products

Salesmen (outside)

Advises in the establishment of sales goals and quotas and sales territories

Solicits orders and promotes the company's products

Determines priority of order placement on production facilities

Contacts indirect consumers to promote specification of company's products

Provides customer with information on prices, extras, terms and conditions of sale, and credit

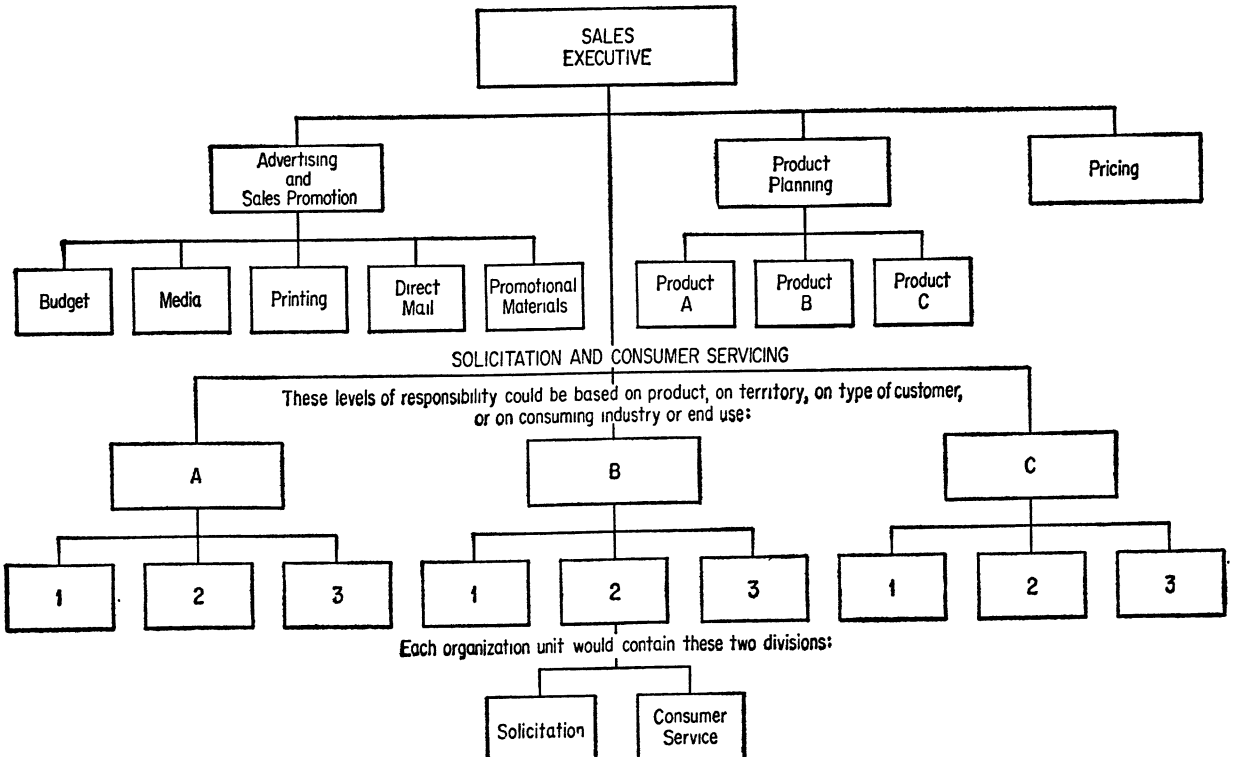
Provides customer with information and assistance on product quality, application, detail, and specification

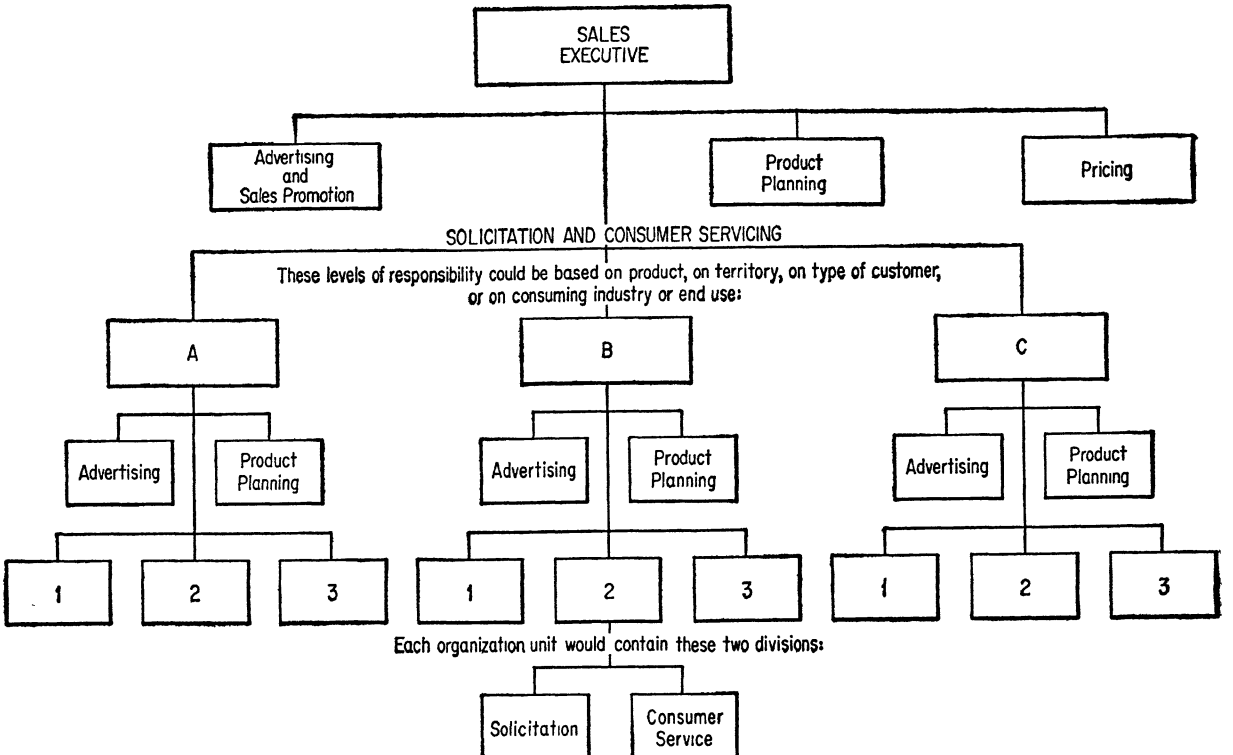
Adjusts customers' complaints and claims

Develops customers' packaging, marking, loading, and shipping requirements

Investigates need for new products or improvements in existing products and recommends action to meet consumers' product requirements

Keeps abreast of market conditions and reports on trade and market conditions, competitive practices, price disadvantages, solicitation methods and practices, consumer trends and requirements, desirable facility locations, desirable products, and legal or other sales retardants


SALES EXECUTIVE
Advertising and Sales Promotion
Product Planning
Pricing
Budget
Media
Printing
Direct Mail
Promotional Materials
Product A
Product B
Product C
SOLICITATION AND CONSUMER SERVICING
These levels of responsibility could be based on product, on territory, on type of customer, or on consuming industry or end use:
A
B
C
1
2
3
1
2
3
1
2
3
Each organization unit would contain these two divisions:
Solicitation
Consumer Service


SALES EXECUTIVE
Advertising and Sales Promotion
Product Planning
Pricing
SOLICITATION AND CONSUMER SERVICING
These levels of responsibility could be based on product, on territory, on type of customer, or on consuming industry or end use:
A
B
C
Advertising
Product Planning
Advertising
Product Planning
Advertising
Product Planning
1
2
3
1
2
3
1
2
3
Each organization unit would contain these two divisions:
Solicitation
Consumer Service

9. AUXILIARY

Auxiliary activities supply the tools (men, money, materials, and machines) for other segments of the enterprise. They exist only to serve other segments, whereas the operating groups could exist unto themselves. Here, again, of course, much depends on the nature of the enterprise. In some situations any one or more of the auxiliary arms could become primary operating groups. Thus, the arrangement of functions in the following pages is for convenience of description, not an absolute prescription for organization relationships.

ENGINEERING

Engineering usually includes the design and construction of facilities and other basic equipment. An engineering department may perform actual construction, or it may supervise construction by outside contractors. In any event, it will usually control building specifications and general layouts.

Engineering holds a unique place in the business enterprise, and is recognized as on a par with other major functions in the top counsels of company management. Aside from its design and construction function, engineering brings a particularly valuable skill to the counsels

of management. The engineer's precision of analysis and measurement provides a very useful methodology for solving many problems of management, and when applied to problems which are subject to mathematical measurement, the engineering approach is an invaluable aid.

Engineering could be divided into several segments:

Design

The design activity deals with the style and form of structures, equipment, or machines, and in some instances with the layout of plants. In all these cases its purpose is to make possible the most economical and efficient utilization of available resources. Design must take account of facility and machine capabilities, the need which the machine is to serve, and the requirements of people working in and around it. In one company's office, for instance, failure to design the air-conditioning system for a combination of private and group offices left one-half of the offices without any air movement and the other half with uncomfortable air currents.

Construction

If there is a construction group in engineering, it might actually erect structures and install machinery, it might design for others to erect and install, or it might just establish standards for an outside contractor to design and erect. Where outside contractors are employed, the engineering department will usually be the company's liaison for controlling the contractor's performance, negotiating contracts, and seeing that work stays on schedule and that building codes and specifications are complied with.

Appropriations

Another function often assigned an engineering department is the consolidation of plans for capital improvements and for major maintenance and repair. The department reviews possible projects submitted from every segment of the enterprise. It is the unusual company which does not generate more plans than it can afford. Thus it remains for some central department to sift out the competing ideas and recommend a priority. Actual decisions on expenditure and

priority usually rest with a top-management individual or committee that balances desirability against ability to pay.

Typical Functions

1. Management
   - Submits capital expenditure requests and administers approved capital appropriations
   - Collaborates in the planning of new products
   - Collaborates in the planning of new facilities and equipment, or their replacement, retirement, or sale
   - Recommends facility acquisitions, additions, alterations, replacement, maintenance, construction, expansion, rehabilitation, and disposal; executes construction required by such facility programs
   - Advises in the formulation of conditions of sale
   - Advises in the appraisal of facilities in proposed acquisitions
2. Appropriation and budgets
   - Prepares and reviews proposed appropriations for capital expenditures and consolidates appropriation proposals
   - Prepares work authorizations
   - Administers expenditure controls
3. Design
   - Designs tools, equipment, buildings, machinery, and safety and protective devices
   - Develops plant layouts (in collaboration with industrial engineers)
   - Constructs models
   - Estimates costs of designed facilities
   - Prepares sketches and other exhibits for patent purposes
   - Assists in designs for product development and advertising purposes
4. Construction control
   - Develops standard contracts and specifications
   - Establishes standards of quality in construction material
   - Estimates construction costs
   - Approves plans for facilities and equipment
   - Establishes facility project priorities

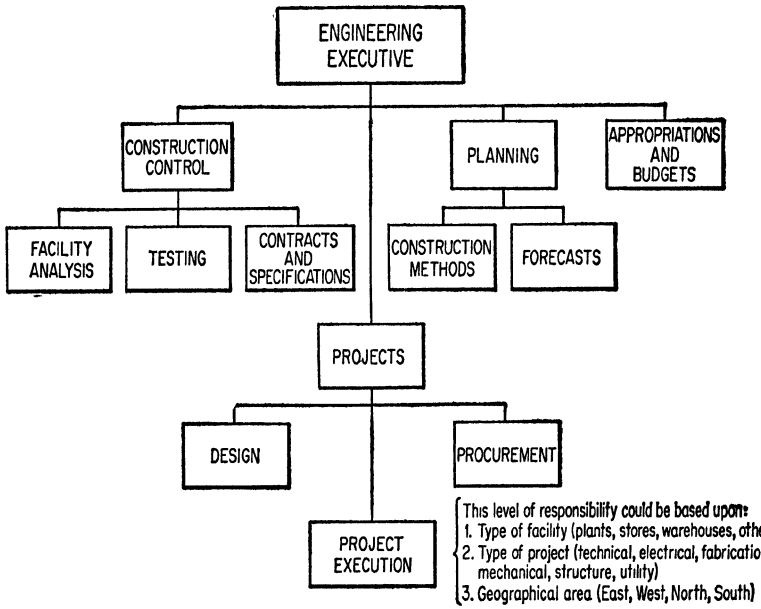
Lets contracts for authorized projects
Reviews construction progress for conformity with contract terms
Analyzes facility and equipment efficiency studies as they may affect building plans and specifications
Appraises property values
Appraises the effect of building code regulations and specifications on building plans
Advises on disposal of present facilities

5. Project supervision
Reviews and approves construction specifications
Advises on the type of contracts and bids most suitable for the type of facility proposed
Recommends most desirable bidder or contractor
Directs building construction and alterations
Directs installation and alterations of machinery, equipment, or other features
Arranges with contractors and subcontractors for scheduling of work
Procures materials and arranges for their protection at the building site, as required
Inspects progress of construction and compliance with building codes
Arranges for local building inspections and secures building permits, as required
Arranges for insurance inspection reports
Tests finished equipment
Arranges for necessary utility services, as required
Arranges for partial completion payments

FINANCE

Finance departments have two major functions: *first,* to maintain custody of funds and to plan their availability; and *second,* to maintain records of business transactions and control systems for the disbursement of funds within authorized budgets. While financial matters are critical in determining the course of a company's development and

while some authorities will classify finance as an operating group on a par with production and sale, decisions on the main course of the business must rest with the two primary operating groups, production and sale. Finance—just as engineering, purchasing, or personnel—is supplementary, not controlling. Obviously a business cannot operate without money, but this does not mean that financial considerations should always take precedence. For it is equally true that a business



cannot operate without facilities, without a product, or without people. As with all activities, it is necessary to strike a balance among all considerations, assuring the company's continuity as well as its solvency.

The finance activity is normally organized into two distinct parts: *first,* treasury, and *second,* accounting.

Treasury

The title "treasurer" is used differently in various companies, sometimes meaning the total financial activity and at other times merely the

credit and collection activity. But, regardless of how it might be labeled or where it might be located in the organization, someone must manage the company's funds and provide for their safekeeping. For purposes of this discussion, the officer identified for this responsibility will be the treasurer.

The management of company capital entails a thorough knowledge of internal business requirements, an understanding of financial markets, and knowledge of the availability of money and its cost. A proper balance of working capital, reserves, and long-range commitments requires attention to conditions both inside and outside the company. There may be times when money will have to be borrowed just to meet the payroll; there may be other times when surplus capital can be invested in short-term securities; and there may be still other times when amortization reserves are insufficient to meet inflated building costs. In a rising market, need for working capital will often exceed available receivables; in a slow market, money may be idle.

The treasurer customarily handles arrangements for company financing, including the negotiation, issuance, and management of stock or bond issues. He handles redemptions and prepares documents required in such transactions.

Credit. The treasurer normally establishes credit terms and negotiates with both customers and vendors for agreeable credit conditions. His aim should be to so administer customer credit policies as to reduce credit losses to a reasonable minimum, but not necessarily to eliminate losses entirely. A company with no credit losses may very well be skirting disaster, for it is still true that the price of doing business is the risk of some loss. What constitutes a reasonable loss ratio varies tremendously with the industry and the individual company's circumstances. The inevitability of a reasonable risk should be no license for recklessness, and of course it is not unknown for a business to suffer serious losses as a result of poorly advised credit extensions. But it is equally true that many businesses impede the vital flow of commerce by restrictive credit policies.

Insurance. Insurance of company properties is often negotiated by the treasurer, although such a responsibility is not always so assigned, nor is it necessarily most logically placed here. Whoever is charged

with the insurance activity would determine extent and type of required coverage and would negotiate policies and claims.

Foreign Operations. If a company has any overseas activities, the treasurer will have special problems in connection with currency exchange, taxation, and business licensing. This can become a very intricate problem, entailing a complex of trading policy, dealer and jobber agreements, and possible foreign subsidiaries. The laws of some countries will encourage foreign companies doing business in their countries; others will restrict such operations through extreme taxation; and still others will have insufficient currency balances, thus restraining normal commerce. The treasurer's role here even more than in domestic commerce is to strike a balance between risk and opportunity for future expansion.

Accounting

The accounting activity, normally in charge of a controller, or comptroller, maintains the accounts of the company's business transactions. It develops and maintains records and compiles data required by management. It also maintains systems for budgetary control.

General Accounting. Just as in the case of a production or sales department where production or solicitation is the primary "reason for being," so in accounting the primary function might be considered general accounting. If we were to conceive of a situation where economy compelled a curtailment of accounting activities, certainly the bare minimum would be the maintenance of basic records on accounts receivable, accounts payable, general ledger, payroll, and property. It is from these records that the enterprise determines its basic financial position and charts its future course.

Budgets. The budget is a plan for directing company activities in the most profitable course. In the broad sense of the word, "budgeting" applies to any planning process using forecasts and estimates (planning new product development, for example), but as used in this context, "budgeting" means the translation of plans into dollars and cents for a prescribed period of time (normally including the cash budget and the expense or operating budget).

The financial budget should contain: (1) estimate of cash receipts

and disbursements; (2) estimate of expenditures; (3) estimate of profit; (4) estimate of cash balances during the budget period; (5) need for additional funds and the time and duration of such funds; (6) sources of funds for meeting financial obligations; (7) points at which a surplus of funds may exist and the amount and duration of such surplus; (8) estimates of expected financial condition at stated intervals.

Business conditions, subject as they are to unforeseen forces of the market, do not allow rigidity of financial plans, and the financial budget must allow for flexibility in the revision of estimated needs. Actual expenditures and receipts may be quite different from original estimates.

The budget-making procedure usually follows these steps: Departments prepare forecasts and estimates of their financial requirements for the budget period. These forecasts and estimates are brought together by a central budget officer (normally in the finance department) where they may be reviewed and modified. After agreement between the departmental and budget officers, the budget is acted upon by some top-management officer or group. The comptroller's authority for including or excluding items from the proposed budget varies considerably, some companies giving him great power and others giving him practically none. But in most cases the budget will go through some top review and approval before it becomes final.

After the budget has been approved, the accounting department maintains a running account of expenditures and periodically advises each department of its expenditures against the budget. Rigid adherence to budget forecasts is much less crucial in business than in government, and the budget agency does not normally have authority to prohibit expenditures in excess of budgets (although such excesses would require prior approval by some coordinating management).

Cost Accounting. The cost accounting system determines each unit's share in the total production-distribution cost and thus provides information for basic company planning. Manufacturing costs provide a guide to proper sales prices and to product-line development. Distribution costs help determine methods of distribution and provide a

measure of territory efficiency. Replacement and installation costs assist in facility planning. Procurement costs provide a guide to the best material sources. Shipping costs provide a guide to the traffic department in allocating shipments and in selecting carriers.

A cost accounting system could include these features: first, a distinguishing cost responsibility for each organization unit to compare costs among various units; second, segregation of each unit's performance through the use of standard prices, standard charging rates, and standard product costs, thus permitting the measurement of each unit's results based upon those factors within its control; third, determination of standards and allowances for all operating activities through the analysis of historical patterns and appraisal of potentiality. Records should reveal the extent to which actual costs deviate from standards in any given period.

Statistics. A major responsibility of the accounting department is to provide members of the organization with data and information about the company's operations, its productivity and profitability, its production and order level, its product costs and distribution, its financial position, its level of income, and a myriad of other matters that can be determined from the records. These statistics are an accounting service and should not imply an authority or control over the activity reported, although there is a great tendency to regard the source of information as also a source of authority. The accounting profession is constantly on guard against the danger that others may attribute authority to the performance of this service.

Tax. The determination of tax liability and the filing of tax returns are usually functions of the accounting department, although some companies have a separate department for this purpose. Regardless of its organizational location, the tax activity has become a significant segment in company structure. Whether the actual calculation of taxes is performed by an outside tax specialist or by a company employee, the complexity of tax matters compels that the records reveal information in sufficient form and substance for tax returns.

Tax requirements will vary with the nature and complexity of the company's product, its properties, its methods of doing business, and the taxing bodies with which it must deal.

Auditing. Financial auditing verifies that value has been received for money expended. It may or may not check actual expenditures against budget estimates.

There are two types of audits: first, an internal audit which checks the adequacy and accuracy of records by spot checking a relatively few transactions; second, an independent audit conducted by public accountants outside the company. Many companies change their public accountants at periodic intervals to assure absolute independence and objectivity of judgment.

The internal audit serves mainly as a check on performance for management control; the outside audit, as a check on management in the interest of the stockholder.

Typical Functions

1. Management
   - Develops programs for company financing
   - Prescribes methods for the receipt, banking, custody, safekeeping, and disbursement of money
   - Administers investment and borrowing policies
   - Prescribes principles for the establishment of necessary financial records and accounts and for the establishment of systems to maintain those records and accounts
   - Prescribes form of the company budget
   - Establishes cost standards and charges
   - Recommends proper equity position and working capital ratios
   - Plans future cash and financial requirements
   - Establishes authorized working fund accounts
   - Forecasts financial results of operations
   - Signs or cosigns required checks and documents
   - Recommends appropriate dividend rates
   - Establishes surety bond requirements
   - Recommends credit and collection policies and terms and conditions of sale
   - Analyzes and checks capital expenditure appropriations
   - Collaborates in the planning of new products, facilities, and equipment, or their replacement, scrapping, or sale

Advises in the appraisal of proposed acquisitions and dispositions

2. Treasury
   a. Treasury management (treasurer)
      Negotiates issuance of corporate securities
      Handles bond interest and redemption and prepares required financial reports to bondholders
      Analyzes outstanding obligations and recommends their disposition
      Reviews bank balances for conformity with policy
      Analyzes trends in interest rates
      Maintains proper equity position and working-capital ratios
      Maintains control of working-fund and other treasury accounts
      Develops policies on check design and signatures, and methods of handling cash, surety bonds, and other safeguards for funds and securities
      Negotiates or approves short-term loans
      Analyzes cash forecasts and determines future cash requirements
      Recommends credit and collection policies and terms of sale
      Signs or cosigns required checks and documents
      Prescribes necessary treasury records
      Authorizes investment of company funds
      Reviews and advises on the financial aspects of proposed contracts
      Recommends depositories
      Recommends insurance policies
   b. Banking (cashier)
      Maintains custody over company funds, securities, and other documents and arranges for their safekeeping in approved depositories
      Controls working-fund accounts
      Plans and controls bank balances
      Transfers funds among depositories as required
      Endorses checks, notes, and other obligations for deposit
      Reviews disbursement approvals for conformity with company policies and procedure

Prepares checks for paying company obligations
Signs or cosigns required checks and documents
Prepares cash forecasts
Maintains records reflecting immediate cash position and renders statements of cash accounts as needed
Recommends depositories

c. Credits and collections
Extends credit and establishes credit limits, terms, and classifications for individual customers in accordance with prescribed policies
Negotiates with consumers to perfect credit arrangements
Appraises financial responsibility of consumers
Appraises vendor financial position
Develops consumer contacts to secure credit data
Collects money due on accounts and employs agencies for collection as required
Maintains temporary custody of cash, funds, and securities
Consolidates and analyzes accounts receivable and collection statistics
Appraises accounts receivable to determine when to write off accounts as uncollectible
Develops and maintains sources of credit information
Recommends conditions of sales

d. Investments
Analyzes securities and the security market
Recommends with regard to, and supervises purchase and sale of, investment securities

e. Insurance
Provides for insurance of company assets and risks within authorized policies
Administers self-insurance funds
Negotiates and places approved coverages
Prepares and files information as required by insurers
Arranges amendments, endorsements, and renewals of insurance policies
Verifies accuracy of insurance bills

Files claims for losses and negotiates settlements

Analyzes risks and liability exposures, and determines insurance coverage

Maintains records of loss experience

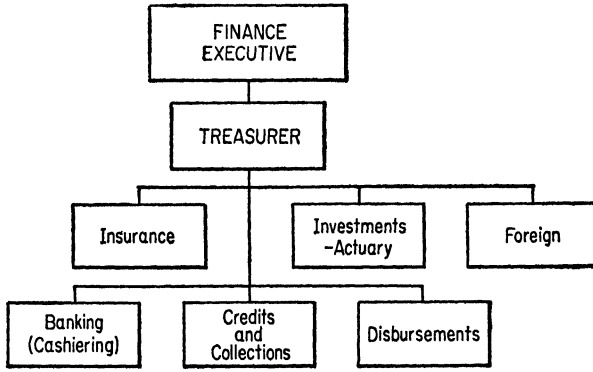
f. Foreign

Negotiates issuance of corporate securities in foreign countries

Analyzes cash forecasts and establishes cash requirements for foreign operations

Arranges for foreign exchange and for the deposit, disbursement, and transfer of funds in and out of foreign countries

Arranges for the safekeeping of company funds in approved depositories



Establishes required accounts for foreign transactions

Applies credit and collection policies and term conditions of sale to foreign accounts

Supervises investment of company funds in foreign countries

Signs or cosigns required checks and documents

Reviews contracts involving foreign purchases and sales

Keeps abreast of foreign exchange rates

Determines foreign exchange requirements

3. Accounting

a. Accounting management (comptroller)

Prescribes company accounting systems

Prescribes method for consolidating the company budget

Prescribes audits of financial and business records
Authorizes disbursement of company funds
Approves transfer of funds between accounts
Prescribes systems and controls for financial accounting
Prescribes the preparation of financial information for within-company use and for government agencies
Countersigns warrants and checks as prescribed
Reviews and advises on accounting and auditing aspects of proposed contracts
Advises on the economic aspects of new product proposals

b. Budgets

Prescribes form and method for preparation of department budgets
Develops and consolidates the company operating budget
Installs budget controls
Reviews disbursements for conformity with the budget
Adjusts budgetary accounts to reflect changed requirements
Advises on the preparation of capital appropriations

c. Statistics

Develops and maintains data on sales, production, and other operating costs
Compiles and analyzes production, sales distribution, and other costs
Develops cost and product codes and cost standards and charges
Reports on performance against cost standards
Processes data on customers' and competitors' business requirements and activity
Prescribes form and layout of statistical reports
Installs and maintains a forecasting program for aid in budgeting
Analyzes appropriation requests and develops statements of financial effects to be expected from the proposed expenditure
Analyzes financial aspects of new product proposals

Analyzes financial results and prepares reports on profit attainment

d. Procedure

Develops descriptions of working relationships within the department

Prescribes sequence in which department programs are to be performed

Prepares and maintains manuals of accounting procedure instruction

Develops and installs standardized payroll and tabulating procedures

Develops and installs standardized accounting procedures

Develops controls for effecting compliance with financial procedures and practices

Designs and controls accounting forms and records

e. Tax

Reviews and analyzes tax laws, interpretations, and rulings

Ascertains amount and prepares documents for payment of required taxes

Prepares and files tax returns

Maintains tax calendar and record of due taxes

Negotiates with government taxing authorities on assessments, extensions, allowances, abatements, refunds, and penalties

Prepares appropriate tax instructions

Advises on the authorized method of withholding taxes and their payment

Analyzes real estate and equipment evaluations for tax purpose

Advises on tax developments and liabilities

Reviews tax economy measures

Advises on tax implications of company policies and actions

Appraises effect of company organization and operation on tax liability

f. General accounting

(1) Accounts receivable

Prepares and distributes customer invoices and billings
Maintains accounts receivable ledgers
Maintains records of products purchased and resold, products under conversion, and exchange agreements shipped to outside vendors for processing
Prepares reports and statements relating to product shipments under government contracts, escalation, and royalty agreements
Maintains accounts for claim settlements

(2) Accounts payable
Reviews, audits, and prepares vouchers for bills payable
Maintains accounts payable ledgers
Prepares disbursement authorization

(3) General ledger
Maintains general ledger and subsidiary ledgers not handled elsewhere
Assembles data for audits
Prepares and consolidates standard fiscal accounting reports

(4) Payroll
Computes and prepares payroll
Maintains payroll and auxiliary records

(5) Property
Maintains property and facility records
Maintains records of payment and collections on property transactions
Prescribes inventory accounting methods
Conducts physical inventories
Determines and calculates depreciations, depletion, and amortization charges

(6) Contract
Advises on accounting and auditing provisions of contracts, leases, and agreements

g. Audit
Examines and reports upon the condition of the business as revealed by the records

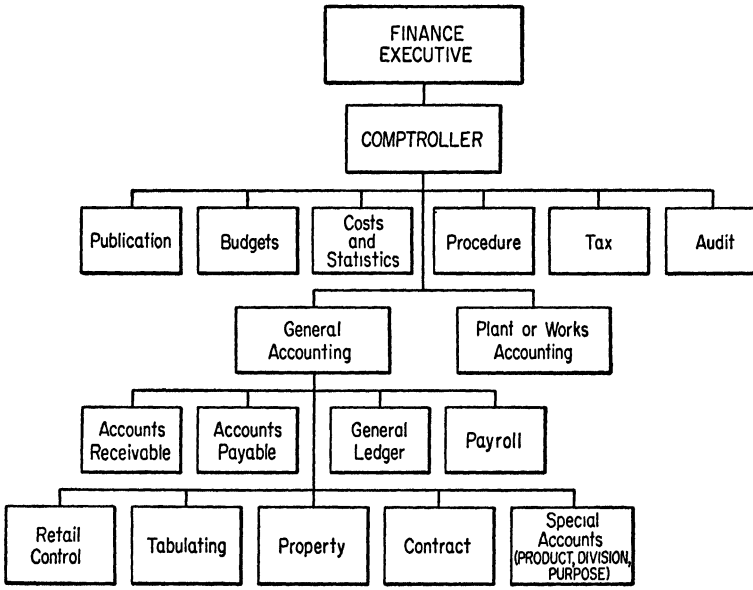
Sees that all assets, liabilities, income, and expenses are accounted for

Observes and reports upon accuracy and completeness of accounting records

Acts as contact point for, and cooperates with, public accountants

h. Plant, store, or works accounting

Prepares financial analyses of operations, expenditures, and projects



Classifies and records expenditures and other incurred obligations, amounts due from others, and value and disposition of products of manufacture

Prepares and maintains expense accounts

Computes interdivision charges for labor and material

Classifies, records receipt, and maintains temporary custody of money

Prepares disbursement authorizations

Maintains records of employee time worked and of material usage
Computes employee earnings and prepares payrolls
Computes costs of operations and products and prepares statements on costs and production
Computes special prices according to formula
Maintains inventory records of raw material, process materials, finished goods, and equipment
Observes and verifies the taking of the physical inventory and computes the value of the inventory
Retail control
  Maintains store-purchase records and stock ledgers
  Maintains book control of store inventories
  Maintains control of interstore transfers
  Maintains price-change records
  Develops data on the cost of goods sold
  Assembles data for profit-and-loss statements

PURCHASING

The procurement activity, or purchasing, has become a specialized profession, taking its place with engineering, accounting, and others as a vital segment in modern organizations.

Purchasing requires a knowledge not only of the market but of conditions within the organization. For, while it is true that the user knows best what quality and characteristics he needs, he may not—and usually does not—have as intimate a knowledge of specific products as one who is constantly studying the market. He will often think he does, but here is where the purchasing agent can be especially valuable for the user—and the company. If he—the purchasing agent—has fulfilled his obligation, he will be familiar with the user's duties and work methods and will know what use or application is intended, and he will then search the market for the most satisfactory product, within the limits of company resources. Undoubtedly, there will be times when only one product will serve the user's need, and of course he should be the final judge of this; but if the purchasing agent has

proved his interest in the user's problems, he will soon find the user relying on his judgment—and accepting substitutes when he knows the company benefits from an advantageous purchase.

An important phase of successful purchasing is the cultivation of adequate sources of supply. The negotiation of advantageous terms will depend on a variety of conditions in the market place, in the buying company, and in the supplier's company. Modern purchasing practices recognize the position of the vendor and accept the sensible proposition that his future prosperity and welfare are essential to the buyer's future also. Thus, while a buyer will, and should always, seek the best prices and terms, he should recognize at the same time that his company's welfare requires a healthy and dependable supply line. Further, he realizes that the vendor is an indispensable link in his company's development. The vendor should be apprised of the company's potential future needs for products and services, for future development may depend upon products which do not yet exist—faster machines, more intense light, lighter-weight metals, more durable plastics, or a host of others.

While buying and negotiating with suppliers is the "reason for being" of purchasing, other related activities are often found in a purchasing department. Purchasing may verify vendors' invoices and check receipt of material. Occasionally, purchasing will handle the disposal of salvage. Purchasing may be called upon to advise whether the company should buy a product or whether it should make the product itself. This type of decision, of course, entails a complex of sales, production, finance, and other considerations. Purchasing helps in this decision by determining the product's availability in the market place.

Reciprocity. One of the forbidden words of the business vocabulary is "reciprocity." This is the supposedly nefarious practice of coercing a vendor, as a price for doing business with you, to buy from you. While certain aspects of the practice are illegal and while companies frown upon use of the word, it is hardly to be expected that a buyer will not look more favorably upon a vendor who is in turn a good customer. Even without any formal recognition there will be a natural affinity between certain vendors and buyers, if for no other reason than

that both may be in the same industry or the same segment of an industry and thus understand each other's problems. Within the restrictions of existing statutes and ethical practices, there can be no fundamental objection to a reasonable consideration of others' business requirements.

Typical Functions

1. Management
   - Establishes buying policy on purchase limits, items to be purchased centrally, emergency purchases, prices, specification standards, competitive bids, sources of supply, and reciprocity
   - Prescribes form of purchase requisitions, purchase orders, receiving and inspection reports and stores requisitions for purchased materials
   - Controls purchase commitments
   - Reviews and analyzes item prices
   - Negotiates long-term and company-wide procurement contracts
   - Approves standard procurement-contract terms
   - Keeps informed on inventory levels and market conditions
   - Advises on whether to make or buy
   - Reviews and analyzes specification standards
   - Advises in the planning of new or improved products and facilities
   - Advises in the formulation of conditions of sale
   - Advises in procurement matters arising out of proposed acquisitions and dispositions
2. Buying
   - Develops new sources of supply
   - Selects vendors
   - Interviews salesmen
   - Negotiates with vendors
   - Analyzes bids and prices
   - Prepares purchase orders
   - Places orders and processes order changes, supplementals, and deviations
   - Schedules purchases and deliveries
   - Makes adjustments with vendors

Determines time to buy within limits of users' requirements
Determines quantity to buy within limits of users' requirements
Analyzes user's requirements and advises on alternative products
Develops alternative materials
Advises on the selection of capital equipment
Advises in the negotiation of procurement contracts, leases, and insurance

3. Expediting
Expedites the shipment and movement of orders from vendors
Arranges customs clearance on import and export shipments
Inspects and tests incoming material
Files claims for loss, damage, or overcharge

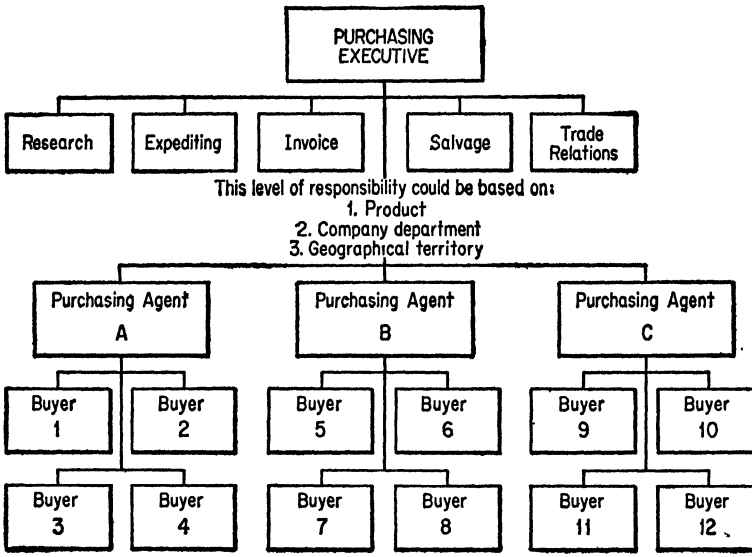
4. Invoice
Verifies terms, quantities, and unit prices on vendors' invoices
Verifies receipt of goods and approves payment of invoices
Handles correction of invoices
Maintains file of credit memoranda

5. Salvage
Disposes of scrap and surplus material, obsolete equipment, and by-products
Advises on grading of scrap materials
Advises on dismantling procedure
Works salvaged parts back into company use

6. Trade relations
Analyzes sales made to the company's suppliers
Studies products and services sold by the company's customers

7. Purchasing research
Conducts tests and develops specifications
Develops and recommends standard procurement contract terms
Analyzes product design, manufacturing, and transportation methods
Analyzes specification requirements and advises on standardization
Reviews purchasing cost expenses
Prepares cost information and cost studies
Analyzes outlook for material supply and prices

Analyzes types and kinds of available commodities
Analyzes position of available suppliers
Analyzes packaging, loading, warehousing, and other material-handling methods
Prepares commodity price records and forecasts
Maintains records and catalogs on sources, past prices, and quantities purchased
Maintains index of purchase orders, requisitions, and vendors
Recommends purchasing policies and programs
Advises on the availability of materials required in the planning of new products and facilities



TRAFFIC

The movement of goods and materials into and out of a company's place of business is a specialized activity as intricate as any to be found in the modern business organization. A complex freight-rate structure and a multitude of movement conditions require an attention to elaborate systems entirely outside the company's control. These systems are infinite in their variety and complexity.

Movement. The actual movement of products constitutes the main endeavor of traffic. The traffic man "buys" trucks, railroads, ships, and other equipment for hauling products just as a purchasing agent would buy a piece of machinery or a carload of lumber. He decides what kind of equipment he needs, when he needs it, and over what route it shall travel. He will determine from his tariff files what form of transportation will be most economical, and he will determine what classification of commodity will be allowed. He will schedule its departure and arrival, and he will see that adequate insurance is obtained. Thus, the traffic man, just as the purchasing agent, must be intimately familiar with requirements inside the company as well as outside. He must know the company's products thoroughly, its customers' requirements, and the conditions of the market place.

The traffic man attempts to assure that the shipment will reach its destination at the appointed time and in the proper condition. He may be called upon to trace a lost shipment, to arrange for a diversion or reconsignment to another party, to consolidate or pool shipments, or to arrange for its storage or processing along the way.

Traffic advises the shipping department on proper loading, weight, safety, or other shipment requirements. Such attention to traffic considerations can materially improve the plant cost picture. Traffic can also advise the purchasing department on proper freight specifications for inbound shipments; and the sales department, for outbound shipments.

Traffic may also be relied upon to assist with inbound shipments. It may expedite shipments, instruct the vendor on possible diversions in transit, or advise on desirable arrival schedules. Here, again, the traffic man's knowledge of internal conditions is essential.

If the company owns or operates its own equipment, traffic is usually given responsibility for managing it. This may entail merely keeping records, but it could extend to the details of acquisition, operation, and maintenance.

Rates. The interpretation and application of rates are in themselves highly specialized endeavors, and to gain a workable understanding of any reasonable number of tariffs may take years of experience. Even in a modest traffic organization, a rate specialist's advice on freight movements and applicable rates can mean substantial savings. The rate

man can aid the shippers by extracting the rates most commonly used. The extracts—or "schedules," as they are sometimes called—can then be used without need for the detailed tariffs when ordering transportation equipment. Great importance is attached to a knowledge of rates and tariffs, and many traffic people are reluctant to rely on any secondary source for their rate information. They prefer to look up rates in the tariffs themselves. This attention to the details of traffic movement is highly commendable, but it is largely unnecessary when accurate and current rate schedules are available. It is true, of course, that many local shipments will be handled by local carriers whose tariffs—if any—will apply only in that locality. Where such conditions exist, the only reasonable course is for each local shipper to utilize these local tariffs. In a large number of other cases, however, a single rate group can provide centralized rate service and thus reduce the quantity of tariff files and duplication of effort in calculating rates at every plant, office, or other operating point.

Rate specialists offer yet another service to the organization. From their knowledge of rates and rate structures, they can advise on traffic considerations arising in other parts of the organization. They can advise the purchasing department on the most advantageous traffic specifications and order quantities. They can advise the sales and production departments on the most favorable shipping methods and routes. And they can advise others on product descriptions, facility locations, materials handling methods, and packing and shipping requirements. Also of critical importance is the negotiation with rate bodies on proposed freight-rate changes.

Traffic Planning. New techniques and forms of transportation as well as potential changes in rate structures will offer many opportunities to improve the company's traffic effort. Likewise, the carriers will be able to assist the shipper with changing traffic needs resulting from new products, different facility locations, or new markets. Concentrated attention to the planning of such matters will help the enterprise take full advantage of the carriers' service or potential future service.

Traffic planning also would determine which carriers are best able to serve the company's need and would prescribe the distribution of freight among these carriers. It would contract for carriers' equipment

and see that such equipment was distributed to shipping points as needed. And it would negotiate with carriers to secure such changes in equipment design as might be needed for new products or markets.

Audits. The verification of freight bills is standard practice in many traffic departments. The complexity of tariffs and the many possible interpretations of tariff regulations make such verification highly desirable. This process normally entails an auditing of the freight bill and the filing of claims for any unwarranted charges. Many traffic people claim that auditing pays for itself many times over.

Typical Functions

1. Management
   - Establishes policies on transportation methods to be employed by the company
   - Negotiates transportation agreements
   - Represents the company at rate hearings before utility commissions and other governmental bodies and trade associations
   - Negotiates freight-rate adjustments
   - Recommends policy on company ownership of transportation equipment
   - Advises in the formulation of conditions of sale
   - Advises in traffic matters arising out of proposed acquisitions and dispositions
2. Rates
   - Prepares rate statements
   - Prepares traffic manuals, route guides, rate and schedule guides, and rate maps
   - Prepares rate exhibits and statistics for negotiating freight-rate adjustments and for governmental body hearings
   - Maintains tariff files
   - Negotiates with carriers on rates, charges, and practices
   - Reviews current rate proposals
   - Analyzes rate structures and trends
   - Analyzes comparative carrier rates and company transportation costs
   - Advises management on plant location

Furnishes to the purchasing department information on impending rate and classification changes and rates, routes, and classification for potential sources of supply

Advises the purchasing department on the most economical size of purchases

Furnishes to the sales department information on competitive freight rates, routes, classifications, and probable delivery dates on outbound shipments

Advises the sales department on the most desirable units of sale and on consolidation and pooling of shipments as affected by freight rates

Advises the production department on location of warehouse and distributing facilities, placement of particular manufacturing facilities, and packaging methods

Advises the advertising department on descriptive matter for packages

3. Traffic planning and cost control

Obtains adequate supply of carriers' equipment and distributes it among plants

Prescribes operation of interplant and intraplant transportation facilities

Plans distribution of freight among carriers

Arranges for special rates, such as fabrication-in-transit, milling-in-transit, storage-in-transit, split delivery, and stopover privileges

Negotiates with carriers on equipment design and on weighing, loading, blocking, and packaging requirements

Negotiates exception ratings for high-volume shipments

Negotiates demurrage credit arrangements

Analyzes causes for transportation loss or damage claims

Formulates procedures for establishing control over delivery of materials

Develops transportation control and performance measurements

Checks product design to assure clearance with bridges and tunnels

Prescribes specifications for special transportation equipment

Negotiates or recommends negotiation of inland and marine insurance

Analyzes desirability of using company-owned equipment as against common carriers

Analyzes operating costs on company-owned equipment

Appraises new techniques and forms of transportation

Keeps abreast of changes in national transportation patterns

Keeps abreast of tariff descriptions and classifications

Reviews product descriptions for traffic classification purposes

Determines proper method of movement and availability of transportation facilities in the planning of products and facilities

Advises on the most economic units of sale and purchase as affected by transportation requirements

Recommends packing and packaging methods, loading and shipping methods, and materials handling

4. Movement (transportation)

Determines commodity classification for products of specific movements

Calculates freight charges on specific movements

Determines load and equipment clearances

Chooses carriers for specific movements

Selects type of transportation equipment

Consolidates and pools shipments and arranges for multiple loading

Orders and schedules transportation equipment and collaborates with the production department in coordinating arrival and production

Arranges for in-transit insurance and checks insurance and safety measures of carriers

Routes shipments

Traces and expedites shipments

Arranges for reconsignment and diversion of shipments and for temporary storage en route

Provides embargo services

Arranges for carrier inspection of damaged inbound shipments

Spots carriers' equipment for loading and unloading

Arranges distribution of goods to stores and warehouses of company departments

Recommends selection and location of warehouses

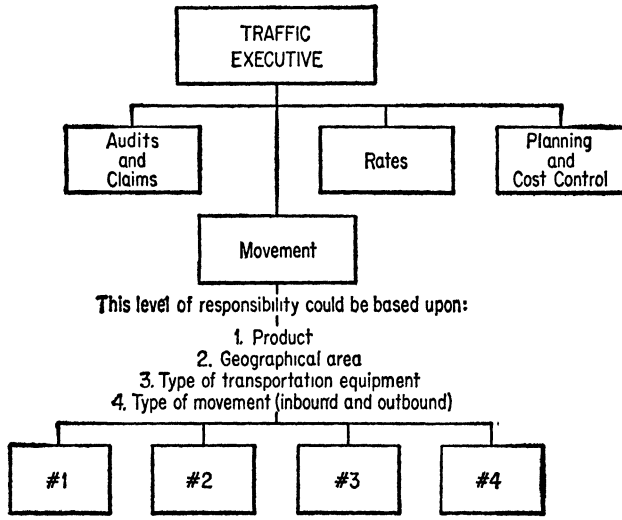
Furnishes proof of delivery to billing department

Supervises and coordinates intracompany movements

Arranges transportation of company personnel

Arranges transportation of employees' personal effects

Schedules and arranges for maintenance of company-owned or leased equipment



Leases transportation equipment

Negotiates movement contracts with carriers

Negotiates agreements on shipping weights for use on bills of lading

Arranges sidetrack agreements with railroads

Secures licenses for export shipments (or works with export-import department or foreign forwarders on foreign shipments)

Advises interested departments on transportation safety rules and regulations

Advises production department on adequacy of loading areas and terminals and on weighing, loading, blocking, and packaging regulations

5. Audits and claims

Audits freight and express bills for accuracy of charges

Verifies freight allowances on sales invoices

Approves freight bills for payment

Files claims for loss and damage and for overcharge and reparation

PERSONNEL

Personnel administration has its primary focus in the creative direction of people within a work environment to stimulate maximum expression of individual aptitudes and to achieve the utmost work performance. Everyone who supervises others thus has a personnel responsibility.

Experience has shown that supervisors in the modern industrial enterprise would have little time for the primary requirements of their jobs if they tried to perform all necessary personnel activities themselves, so it is found that a division of work is practical. In other words, supervisors can be assisted with certain portions of their personnel responsibility by a central personnel department. The ultimate responsibility for effective supervision still resides with each supervisor, but the help he receives on personnel matters should assist him in achieving the most efficient and effective work performance.

For organization purposes, the responsibilities of a personnel department can be classified in two ways: *first,* those activities dealing with the day-to-day requirements of placing people on the payroll, moving them from job to job, providing them with necessary on-the-job training and services, and executing administrative phases of development programs; *second,* those activities dealing with over-all policies and programs of personnel administration, long-range planning, employee-development plans, professional employee services, and research. Included in this second classification would be such matters as replacement schedules for specific positions, determination of un-

derstudy positions, merit-raise budgets, individual placement and training for development purposes, personnel research, and industrial psychological services.

Day-to-day Requirements

Employment and Placement. The employment and placement activity divides into two classifications: *first,* outside recruitment; *second,* internal selection and transfers.

Outside Recruitment. Personnel would be recruited from outside the organization in two types of situations: *first,* to fill positions which cannot be filled by people already in the organization; *second,* to provide new employees for vacancies brought about by the normal process of retirement, turnover, or potential business expansion.

In the first category are those very special situations where a particular skill or experience is required which can be found only outside the organization. Such a situation might arise, for example, where a research department needs an atomic physicist; or accounting, a mathematician. Sources utilized in identifying candidates for these types of positions will be many and varied, ranging from executive search companies to colleges and universities, from personal contacts of other employees to professional or trade associations.

Inside Recruitment. The identification, selection, placement, transfer, and reassignment of employees within the organization—with "internal recruitment"—is a vital phase of the employment and placement activity.

The objective of this activity is to assure that the talents of individuals are used to their utmost and that positions are filled with the most qualified individuals available from within the organization so far as possible—in short, intelligent "promotion from within." The aim is to have a number of pools of individuals for placement in specific positions as they are required.

Training. Training, as with the other aspects of personnel administration, is inherent in all supervisory relationships. But a personnel department could formulate training and development programs, advise and counsel others in preparation of such programs, direct the conduct of training sessions, or actually conduct training sessions in some situa-

tions. This training could extend from orientation, to job training, to programs for individual development. The objective of this activity is continued, improved performance, and, recognizing that development is essentially an individual matter, it seeks to provide individuals with opportunities to increase their proficiency and thus to enhance their job achievement and satisfaction. Through this training activity the organization is provided with a trained pool of men available for advancement into positions of increasing responsibility, and the enterprise is thus afforded a greater flexibility in organization assignment.

Long-range Requirements

Personnel Planning. Personnel planning provides a systematic method for maintaining the organization's personnel requirements in much the same way that facility planning maintains the most efficient production facilities. Its aim is to identify qualified individuals, to see that they are trained and developed, and to help place them in positions where they can contribute their utmost capacity to the benefit of the organization.

The dual character of personnel administration as pointed out above suggests that personnel planning ought to be separated from the routines of administration, for when planning and long-range developments are combined with day-to-day administration, the press of daily matters tends to preempt time and attention from long-range considerations. Also, the confidential nature of personnel matters dealt with in personnel planning requires a different type of relationship than that required for day-to-day routines. Further, personnel planning would oftentimes be dealing with positions of considerable responsibility at the highest levels in the organization. In recognition of these conditions, many companies have separated the administrative and the planning phases of personnel management. Some separate them within the personnel department; others assign the management development phases of planning to a separate responsibility reporting directly to the president.

Personnel planning requires a familiarity with key members of the organization and with their personal progress and development. This familiarity rests upon continuity of association where mutual con-

fidence gives rise to advice and guidance in the selection and development of key individuals. The opportunity for developing such relationships most easily arises out of workaday incidents in which specific problems are met and dealt with as they arise. Thus there should be a close working relationship between the personnel man and the department he is serving. Personnel planning might be likened to a sales engineer and his service to the customer. It requires a knowledge of total personnel requirements, just as the engineer requires a knowledge of the customer's product requirements.

Personnel planning might also help to determine the types of requirements and prior experience needed in particular positions.

Personnel Research. Personnel research aims to determine the facts about the people in an organization, their desires, their motivations, and their satisfactions—and the impact of company policies, procedures, and programs on these people. Personnel research provides an organized method for applying the social scientists' knowledge to the solution of personnel problems just as the physical scientist applies his knowledge to the solution of production problems. Technical research attempts to determine the best production methods; market research attempts to measure the market for the company's product; and personnel research attempts to discover those conditions most favorable to effective performance. It is, in short, an organized means for determining what makes people productive and discovering the barriers or the incentives to productive effort in order that means may be found for providing the most creative atmosphere. Personnel research thus becomes a primary ingredient in a planned effort for improving the utilization of human resources.

The justification for research, as it applies to personnel work, stems from a belief that the personnel functions are important enough to be done effectively and that fact is more reliable than opinion. The techniques supporting the research point of view can be applied to nearly all personnel functions:

1. Initial Selection. If selection is considered to be important (not merely necessary) and if the facts of individual differences and difficulties of judging people are adequately recognized, research must be considered necessary in order to:

a. Determine the measurable characteristics of applicants aside from the more obvious qualifications appearing on application blanks or apparent in the interview

b. Assess the probable potential of applicants to assure the over-all quality of the organization as well as to ensure the necessary personnel for the future.

2. *Training.* It is commonly assumed that training is difficult or impossible to evaluate. The research point of view is that all training programs can be directly evaluated in terms of whatever objectives they have. The program which cannot be evaluated is one which has no objectives (other than to please executives and enlarge training statistics). It would seem that any sincere interest in a training program of any kind would be accompanied by an equally sincere interest in the effectiveness of the program, at least some curiosity as to how effective the program really was, a distrust of mere opinion about it, and a desire to make it better the next time.

3. *Management Selection.* The manager or administrator is rightly assumed to be of vital importance to an organization. Only those who are selected into first-line management have any chance of rising to top management (if promotion from within is practiced). This makes it important to know as much about supervisory selection as possible. What are the characteristics of the best first-line supervisors? What are the indicators of future top-level talent?

4. *Appraisal and Measurement of Performance.* Who should appraise whom, by what means, and how often? What are the benefits of appraisal? Are they as real as supposed, and do the benefits outweigh disadvantages? Is it true that complex jobs (such as management) cannot be measured?

5. *Communications and Morale.* What actually is received by the employee as a result of particular communications efforts? What are employee reactions to policies? What kinds of behavior on the part of management assure high morale? How can we find out which groups have high morale and why? What motivates employees to perform at high levels?

Special Employee Services. There are a variety of special employee services to be performed in a personnel department: pensions, in-

surance, suggestion systems, service awards, employee associations, credit unions, and employee magazines.

Some formal recognition of psychological services might be in order in the personnel department, although it may be more appropriately attached to a medical department in some situations. Such a service might include psychological testing, counseling of employees in their adjustment to the job, or discussions with supervisors to achieve the most favorable work relationships.

Typical Functions

1. Management
   - Appraises effects of company personnel policies and makes recommendations regarding these policies
   - Appraises effectiveness of over-all employee performance
   - Advises and counsels company management in the conduct of personnel relations
   - Recommends collective-bargaining positions
   - Keeps informed of employees' viewpoints and attitudes
   - Develops policies on employee benefits and services
   - Develops and recommends incentive compensation and employee service plans
   - Establishes standard work forces
   - Establishes personnel qualification standards
   - Represents the company in the later steps of labor grievances and union negotiations
   - Maintains contact with government agencies concerned with industrial relations
   - Advises in personnel matters arising out of proposed acquisitions and dispositions
2. Union relations
   - Handles matters preliminary to establishing collective-bargaining relationships such as recognition of unions and negotiation with government bodies
   - *a.* Negotiation of agreements
     - Develops and clears bargaining policies and procedures and bargaining positions

Conducts negotiating meetings
Signs and releases negotiated labor agreements
Consults with legal staff to see that labor agreements conform with applicable legislation
Develops, clears, and releases comprehensive interpretations of labor agreements

b. Administration of agreements
Counsels and advises management on application of agreements
Reviews plant handling of labor grievances and other provisions of the union contract
Investigates grievances and schedules grievance meetings
Arranges arbitration of matters not subject to arbitration under provisions of labor agreements
Contacts departmental representatives as required in the investigation of grievances and in the preparation and clearing of arbitration briefs
Prepares, clears, and submits arbitration briefs
Schedules and conducts prehearing meetings
Contacts arbitration boards for scheduling of arbitration hearings
Represents company in arbitration hearings
Maintains records of grievance meetings, investigations, etc., and distributes minutes of such meetings to appropriate parties
Receives and implements arbitration awards

c. Procedures and records
Compiles data required for grievance and arbitration proceedings
Maintains records of grievance cases, arbitration cases, work stoppages, labor agreements, negotiating meetings, etc.
Prepares and communicates significant union-relations information to interested company departments
Analyzes data to determine causes of labor problems

3. Employment and placement
Develops sources of labor supply

Evaluates job requirements against candidates' qualifications

Develops and administers selection procedures, including preparation of application forms, checking references, conducting interviews, constructing, administering, and validating tests, and referral of applicants to appropriate department

Arranges for applicants' physical examinations

Processes records of probationary periods, transfers, and promotions, relocation of handicapped personnel, layoffs and furloughs, and leaves of absence, termination, and retirement

Handles security clearances and identification badges

Interviews employees at time of termination, explains termination rights, determines factors leading to termination, and arranges for references

Reports upon turnover and causes of separation

4. Classification

Analyzes positions for duties performed and requirements for performing these duties

Prepares position descriptions based upon the assigned duties and requirements of each position

Establishes key duties and assigns relative values to these duties

Assigns a job classification in accordance with the position's key duties and determines if the position is exempt or nonexempt from related legislation

Relates each position to the organization structure

Develops and assigns position titles

5. Appraisal

Appraises personnel performance against standards

Develops personnel performance standards and appraisal methods

Instructs supervisors in appraisal techniques

Analyzes appraisal techniques and counsels on the most effective use of the appraisal system

Consults with and advises supervisors in their appraisal interviews

Analyzes appraisals for guidance in administrative planning and personnel placement

Maintains records of individual performance

6. Training
   - Estimates requirements for training and for training methods to be employed
   - Prepares training programs and develops training materials
   - Organizes and conducts training classes
   - Maintains relations with schools and other outside agencies and arranges for employee participation in educational programs
   - Develops and administers achievement tests
   - Analyzes and evaluates training techniques and practices
7. Development
   - Develops programs for the discovery and development of promising personnel
   - Develops plans for promotional paths and rotational assignments
   - Prepares individual development programs
   - Collaborates in selecting personnel for development
   - Develops coordinated replacement programs
   - Advises in selection of personnel
   - Collaborates in the determination of position responsibilities
   - Collaborates in the preparation of development training courses
8. Safety
   - Reviews plant facilities, processes, and materials for conditions which might create a harmful working environment
   - Conducts safety inspections and reports on conditions
   - Reviews and approves safety rules and regulations
   - Investigates accidents, analyzes their causes, and recommends corrective action to avoid recurrence
   - Recommends methods and practices designed to eliminate accidents
   - Recommends action to correct unsafe practices
   - Advises on the design of equipment and facilities
   - Reviews and recommends sanitary standards and procedures
   - Collaborates in the development of industrial hygiene programs
   - Assists in the conduct of safety meetings
   - Develops and disseminates safety publicity
   - Arranges safety contests
   - Assists in promoting community safety activities

Maintains reports on employee accidents
Collaborates in the establishment of employee qualifications
Maintains contact with government safety and health agencies

9. Employee services
   Administers pension and insurance programs and appraises adequacy of employee insurance plans
   Processes employee insurance claims
   Distributes insurance and pension contracts and explanatory booklets
   Negotiates with insurance companies on pension and insurance programs
   Investigates and recommends with respect to disability or early retirements
   Collaborates with other departments in the handling of claims and appeals arising under social insurance laws and regulations
   Assists employees in the filing of claims under social insurance laws
   Processes workmen's compensation claims
   Administers payroll deduction plans
   Administers incentive plans and processes service awards
   Administers an employee suggestion system
   Supervises the preparation of and distributes employee publications and informational booklets and films
   Distributes company policy statements, annual reports, and labor contracts
   Processes military deferment requests, military leaves of absence, and reemployment rights
   Determines vacation periods and processes schedules
   Recommends and administers recreation and social facilities and programs
   Assists in establishment of credit unions and thrift plans
   Maintains company library
   Conducts community-welfare campaigns
10. Medical
   Maintains plant hospitals, first-aid rooms, and equipment

Treats occupational diseases and injuries
Administers physical examinations
Administers employee health programs
Inspects sanitary conditions in restaurants, locker rooms, etc.
Develops measures to prevent accidents or impairment of health by materials, methods, or practices
Advises on the establishment of physical standards for jobs
Conducts health education and counseling programs
Advises on health aspects of placement and transfer policies

11. Records and data
Maintains records and prepares reports on employment and work-force figures
Maintains individual personnel records
Maintains retirement plan records
Records transfers, promotions, terminations, salary adjustments, and pension and insurance applications and claims
Prepares and distributes personnel announcements
Maintains files on personnel regulations

12. Research
Conducts attitude surveys, success and failure studies, and condition and trend studies
Analyzes testing programs and recommends criteria for the construction of tests
Analyzes personnel selection techniques and recommends improvements
Studies measurement standards and recommends methods for measuring personnel performance
Analyzes employee classification and compensation ranges and conducts community employment surveys
Maintains records on employee development programs
Analyzes employee training programs and recommends improvements
Analyzes safety programs and measures existing methods
Develops methods for the determination and appraisal of employee qualifications
Arranges with outside research organizations for the conduct of special research projects

13. Compensation

Evaluates duties in position descriptions

Establishes position salary scales and ranges

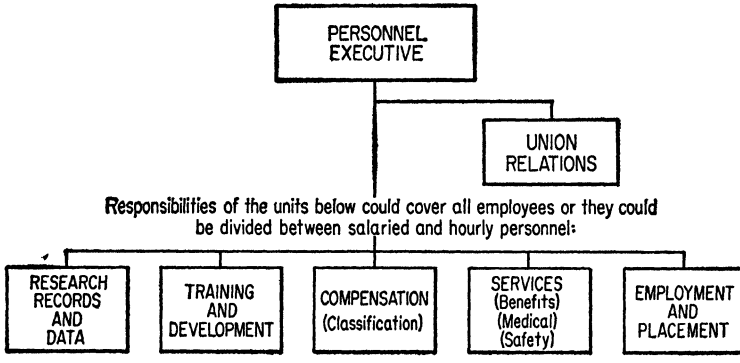
Examines all authorizations of salary changes for conformity with policies

Advises on plans for incentive compensation

Maintains data and prepares reports on salary trends and costs

Reviews and analyzes data on cost-of-living and comparative wage rates

Recommends policies on salary continuation, compensable leave, salary deductions, loans, advances, incentive and bonus payments, overtime pay, and other compensation payments



10. SERVICE

The service activities are generally characterized by a specialized technical or professional knowledge and by an intensified attention to important subsidiary problems which regularly confront management in the operation of business enterprise. Here—more than in the operating or auxiliary areas—will be found knowledge, training, and skills which extend beyond the boundaries of any one business or industry.

The following listing includes legal, research, public relations, services, property management, procedures and methods, and office management. Again, there is no ironclad boundary between these activities and the activities in the operating or auxiliary groups, nor is there any intention to relegate them to a position of secondary importance. In many instances some of these activities might be placed in some other classification. They are classified as they are here only for convenience of discussion.

LAW

The majority of companies will probably employ legal counsel from private firms and thus may have no attorney on their own staffs. Even a

company with its own law department will employ outside counsel in particular instances or for certain types of cases. Some companies, for instance, make it a policy to use retained attorneys for court litigation.

In whatever manner he may be employed, the purpose of the lawyer is to assure the company that its legal obligations are met and that its legal rights are protected. The main aspects of legal services are: (1) advising the company of its legal rights and obligations, (2) drawing and filing records and documents, and (3) negotiating or litigating legal controversies.

The complexity of laws and regulations under which modern business must operate makes the use of legal counsel an absolute necessity. But the lawyer's value is not limited to a prescription of what is permissible and what is prohibited. His knowledge of the law recognizes possibilities for appropriate courses of action to develop and extend business opportunities.

The lawyer adds another very valuable contribution to the councils of management. The legal training with its discipline of mind and analytical conditioning contributes immensely to the perception of business problems and to their creative solution. At the same time, however, the lawyer's natural caution, resulting from his familiarity with legal structures, must be balanced against the need for new directions and innovations. While the law tends to describe what *cannot be done,* other pressures both inside and outside the company will emphasize what *must be done.* The role of management is to moderate a course between the extremes of "can't do" on the one hand and destructive deviation on the other. In management's deliberations, the precedent of the past and the restrictions of the present must be balanced against the opportunities of the future.

Typical Functions

1. Management
   Formulates and recommends legal policies
   Renders legal advice to various departments concerning their functions and proposed actions
   Represents the company in negotiations, hearings, and conferences

Approves standard legal forms covering the most commonly used contracts

Approves all leases, deeds, and other agreements containing non-standard provisions

2. Corporate

Handles changes in certificates of incorporation, bylaws, and other documents arising out of changes of corporate status

Handles the legal phases of corporate mergers and consolidations

Advises on the acquisition or disposal of corporate enterprises

Prepares stock certificates

Prepares required reports for the Securities and Exchange Commission and securities exchanges

Prescribes required stockholder reports and other relations

Prepares license agreements

3. Production

Advises on legal aspects in the use of facilities, equipment, methods, and procedures

Advises on legal implications of production curtailment

Advises on the legal requirements of quality standards and specifications

Advises on legal aspects in the use of raw materials and other materials

Advises on legal requirements in the use of fuel and other sources of power

Advises on legal requirements of packaging, storing, shipping, and inspection

Advises on performance requirements of finished products

Advises on compliance with smoke abatement, air and stream pollution, and other sanitation requirements

Reviews and advises on terms of agreement for the acquisition of patent, design, and process rights

Reviews and appraises contracts for facility additions, alterations, maintenance, construction, expansion, rehabilitation, and disposal

Advises on legal requirements in the securing of building and construction permits

Advises on legal problems in the design and construction of facilities

Advises on legal aspects in the protection of facilities

4. Raw materials

Prescribes legal requirements for the acquisition and sale of raw materials

Conducts legal negotiations in connection with the procurement and transportation of raw materials

5. Commercial relations

Reviews terms and conditions of vendors' contracts and advises on the legal aspects of contracts and purchase orders

Drafts subordinate and guaranty agreements

Advises on advertising programs and reviews advertising contracts

Examines government bids and contracts

Reviews assignments

Prepares papers for filing of liens

Advises on legal requirements in the marketing of products

Reviews pricing schedules for conformity with legal requirements

Advises on legal implications in the solicitation and acceptance of customer's orders

Advises on the legal implications of providing commercial and technical service to customers

Advises on legal aspects in the settlement of complaints and claims

Advises on special aspects of product planning and development

Advises on legal problems entailed in the procurement of products and materials

Advises with respect to problems arising under the Robinson-Patman and Federal Trade Acts

Advises in the establishment of credit and collection policies and terms of sale

Prepares correspondence on miscellaneous credit problems

Drafts agreements for the licensing of patent, design, and process rights

Drafts conditions of sale

Advises with respect to priorities, allocations, inventory, and other control under government regulations

6. Finance

Advises on the requirements of company financing and financial records

Advises on the handling of corporate funded debt, including debentures, agreements, etc.

Advises on legal requirements in the distribution of income

Advises on legal restrictions in billing and discounting

Advises on statutory requirements for the deposit and safekeeping of company funds

Advises on insurance requirements and obligations

Advises on the requirements of taxes

7. Traffic

Represents the company before Federal, state, and local utility, commerce, and communications commissions and arranges for permits and licenses from such bodies

Conducts legal negotiations with carriers

Advises on charters and leases of transportation equipment, sidetrack agreements, private carrier permits, and demurrage problems

Advises with respect to application of freight rates and interpretation of tariffs

Advises with respect to right of diversion and reconsignment in transit

Advises on legal phases of loading practices

Advises on claims of carriers, shipment loss and damage claims, and reparation claims

8. Employee relations (including casualty)

Interprets legislation, court decisions, and administrative regulations affecting employee relations

Represents the company in the arbitration of labor contracts and disputes

Represents the company in the prosecution of workmen's compensation cases

Advises on compliance with government wage and salary stabilization regulations

Advises on legal implications in the establishment of labor standards

Advises on the application of safety legislation and regulations

Counsels with respect to applications for fuel-oil-storage and explosive-storage permits

Advises on alcohol purchase permits and narcotic licenses

Advises on negotiation with labor union representatives

Reviews proposed labor agreements for conformity with applicable legislation

Advises on questions arising out of the administration of insurance and pension programs

Advises on workmen's compensation, occupational disease, unemployment compensation, personal injury, and property-damage claims cases

Advises on questions arising out of work stoppages and picketing

Prepares employment contracts

Advises on wage assignments and attachments

Advises on the payment of decedents' wages

9. Pensions and insurance

Prescribes the legal requirements for pension and employee insurance plans

Advises on legal phases of employee insurance policies

Advises on effect of labor agreements upon pensions and employee insurance

Handles legal phases of trust agreements as they relate to pensions

10. Public relations

Reviews and advises on legal implications in public pronouncements

11. Real estate

Prepares easements, leases, options, conveyances, mortgages, insurance, sales-leaseback, and other agreements entailed in real estate transactions

Negotiates real estate assessments
Advises on investment in real estate interests
Examines property titles
Handles legal phases in the maintenance of company real estate records

12. Patents and trademarks
Investigates registerability and patentability of trademarks, trade names, copyrights, and patents
Prepares, files, and prosecutes patent, trademark, and copyright application and advises on such registrations in foreign countries
Advises on procedure of obtaining patents, trademarks, and copyrights
Reviews, approves, and negotiates patent, trademark, and copyright agreements
Negotiates international patent, trademark, or copyright arrangements
Advises on possible infringements in advertising or other published material
Represents the company in litigation involving patent infringements
Maintains appropriate registration records
Advises on patent matters arising out of acquisitions and dispositions

13. Litigation and claims
Represents the company in negotiating legal actions and claims
Represents the company in proceedings before courts of law and designated government administrative agencies
Handles government actions including noncompliance complaints, antitrust cases, and congressional investigations
Investigates thefts of company property

14. Foreign operations
Handles legal phases in the organization, dissolution, or withdrawal of company operations in foreign countries
Advises on requirements for the conduct of business in foreign countries

Arranges for permits, licenses, and other authorizations for the conduct of business in foreign countries

Advises on requirements of financing and financial records in foreign countries

Advises on foreign sales methods and practices

Advises on performance requirements of products going into foreign markets

Advises on legal requirements for packaging, storing, shipping, and inspection of products and materials in foreign countries

Advises on requirements of contractual obligations and employee relations in foreign countries

Handles legal phases in the acquisition of properties and raw materials in foreign countries

Advises on requirements of foreign procurement

Prepares, files, and prosecutes foreign patent, trademark, and copyright applications

Handles or arranges for the handling of litigation growing out of foreign operations

15. Legal research

Prepares legal memoranda and briefs

Files pleadings and other legal documents

Investigates questions of contractual rights and obligations arising out of company activities

Reviews proposed legislation as it affects company interests

Reviews legal files as requested

Maintains law library

SECRETARY

The secretary is the official custodian of a corporation's corporate records and the officer who affixes the corporate identification on official papers and documents.

The secretarial function even in the largest organizations is normally a part-time responsibility. In many companies the top financial officer is also the secretary; in others, the legal counsel will be so designated.

Typical Functions

1. Maintains custody of company records and documents, including contracts, deeds, minute books, stock ledgers, and stock certificate books
2. Records transfers of stock ownership in stock records
3. Maintains custody of the corporate seal and affixes it to appropriate documents
4. Obtains, affixes, and cancels stock transfer stamps
5. Executes and delivers official contracts, deeds, bonds and other instruments
6. Signs or countersigns appropriate contracts and other documents
7. Gives and serves appropriate company notices
8. Prepares required materials and legal documents for board meetings
9. Prepares agendas for stockholder meetings
10. Prepares forms for proxies, determines validity of proxies received, and tabulates proxy returns
11. Makes arrangements for stockholder meetings and determines presence of a quorum
12. Keeps records of minutes, votes taken, and resolutions of stockholder and board of director meetings
13. Prepares formal notices of board of stockholder meeting actions
14. Certifies list of stockholders to treasury for dividend payments
15. Advises officers and employees of board and stockholder action which affects their responsibilities
16. Files papers necessary to qualify company to do business
17. Prepares and files reports of corporate activity required by the law
18. Arranges performance bonds
19. Exhibits books and records to authorized auditors

RESEARCH

Research is the scientific investigation of technological, production, product, or material problems which affect or are affected by company

operations. The investigation may entail changes and improvements in the existing product line, development of new products, changes or improvements in production methods, or investigations leading to different types of businesses.

The rise of science and the application of scientific methods in business organizations have placed research activity in the front ranks of modern business organizations. Probably no activity has had such a dramatic and meteoric rise in the business family—and none has shown such fantastic results. The new products, the new processes, and the new methods are making each receding generation successively more obsolete. The product or process of today was unknown yesterday, and the product of tomorrow is probably unknown today.

Research exists in varying degrees and forms: from the vast research departments of large chemical and electronic companies to the testing forge in the small foundry. The purpose is the same in all cases: a better product or a better service at less cost to the consumer. It is an endless search for more and better for less and less.

Research takes two distinct forms: *first,* fundamental research; and *second,* applied research. The former might be defined as the search for knowledge for knowledge's sake. Fundamental research is the main forte of universities and other public or privately endowed research institutions and is only occasionally found in the business enterprise. Applied research has a more or less specific end objective in view, developing improvements in existing operations or creating new products, processes, or methods. The research departments of business or research groups serving business are the major institutions of applied research.

Typical Functions

1. Management
   - Establishes procedure for the conduct of research projects
   - Coordinates research conducted by consultants and company laboratories
   - Reviews and recommends regarding the granting of licenses for the use of products or processes

Reviews proposals for the acquisition or licensing of patents, design, and process rights

Advises on technical matters involved in government regulations

Advises on technical matters arising out of proposed acquisitions and dispositions

2. Products

Investigates and develops new products and advises in their design

Determines availability of raw materials needed for new product

Plans and initiates service trials for new or improved products

Investigates performance and develops improvements and simplification in existing products and recommends means for improving quality

Conducts laboratory and field tests on products and records and reports upon them

Investigates service failures of company products

Advises in the establishment of product quality standards and specification and sampling and testing methods

Prepares trademark and patent specifications

3. Facilities and production

Advises on the technical aspects of facilities and assists in experiments on facility efficiency

Investigates and develops improvements in manufacturing processes, methods, and equipment

Develops productivity and efficiency standards for production equipment

Develops standardized parts and production methods

Conducts experiments with, and advises on, the selection of equipment

Develops equipment for inspection and testing

Arranges for periodic calibration and certification of testing equipment at plant installations

Conducts surveys of the production department's compliance with customer specifications and standards

Designs and constructs models and pilot plants

Develops methods for control of air and stream pollution

4. Service
   - Provides technical advice and service on the purchase and use of raw materials or finished grade
   - Supplies data on the performance and limitations of products
   - Provides technical data and advice to consumers
5. Fundamental research
   - Explores areas of research which appear to contain new sources of knowledge
   - Originates research projects of broad interest
   - Determines the scope and extent of research projects
6. Data and information
   - Maintains technical data and records
   - Maintains files on technological aspects of the industry
   - Searches technical literature for information on specific subjects
   - Prepares and edits technical publications
   - Reviews technical presentations

PUBLIC RELATIONS

The aim of public relations is to develop a favorable attitude toward the company and its policies. This includes employees and owners as well as the public. It seeks to identify the company's policies with the public interest and to foster an understanding and appreciation of these policies.

The public relations activity is no hoodwinking operation, for attempts to conceal a company's real motives through a mere façade are doomed to failure before a sophisticated public wise to the ways of "slick" promotion. The first requisite of sound public relations is sound management policies and practices. If the public is to be told that the company's practices are in the public interest, such a story will be accepted only if *in fact* these practices are in the public interest. So many companies have met with failure in this field that the lesson certainly ought to be clear, but there are still those who seem to think that a soothing potion can remove the flavor of deception. Such efforts must inevitably fail.

But when policies are right and when the company has a straight-

forward story to tell, the company must tell its story and must tell it simply to all parties interested in the enterprise. This story is told not only through the more formal media of communications, but through the conduct of the organization and the individual members of it. Seen in this light, public relations is a responsibility of every member in the organization. And by the same token, the public relations specialist must be established on a par with other major segments of the enterprise if he is to keep the enterprise alert to the possibilities of public favor.

Typical Functions

1. Disseminates technical, research, and other facts about the company, its products, and its policies
2. Assembles, prepares, and distributes information to stockholders
3. Maintains contact with press associations, daily and weekly newspapers, trade papers and magazines, general magazines, and editors, writers, and columnists
4. Prepares national press releases
5. Advises in the presentation of advertising and promotion programs
6. Reviews and clears all speeches and other public presentations
7. Prepares news bulletins and digests and maintains information services for internal use
8. Assists in preparation of house organs, motion pictures, and other publications
9. Plans and conducts public meetings and other special events (such as plant-opening ceremonies)
10. Arranges plant visits and plant celebrations
11. Cooperates with educational, civic, and professional groups in civic activities and in disseminating company information
12. Directs the operation of public reception areas
13. Keeps informed of government action or proposed action affecting the company's industry and advises company officers of such action
14. Advises on public relations aspects involved in company acquisitions and dispositions

SERVICES

This classification includes a variety of company-wide services which do not seem to fit into any department or which can better be provided at a centralized location. The need for these services may arise in two ways: *first,* when requirements for the service are great enough to make internal service more economical than outside purchase; *second,* when a single centralized group can better serve the total organization than separate activities in several different units.

The services which any particular company would employ depend on a variety of circumstances and individual conditions and could range from a stenographic pool to a central research laboratory, from a print shop to an electronic computer installation. The following are typical of many of these services.

Typical Functions

1. Visual productions
   - Produces or arranges for the production of exhibits, displays, posters, and other visual presentations
   - Produces or arranges for the production of motion pictures, slides, and other projected images
   - Maintains photographic studios and developing facilities
   - Maintains drafting, artistic, and design facilities
2. Publication and printing
   - Distributes direct-mail advertising literature
   - Prints, or arranges for the printing of, company literature, publications, and releases
   - Distributes company publications
   - Maintains inventories of printed materials
3. Communication and property
   - Operates central mail, addressograph, multilith, telephone, telegraph, teletype, and teleprinter facilities
   - Arranges for connections with outside communication facilities
   - Installs, operates, and maintains company-wide communication systems

Provides maintenance, decoration, landscaping, and custodial services

4. Electronic computers and calculators
   Operates and maintains central computing and calculating equipment
   Programs problems for computer application
   Provides integrated data-processing services
   Produces reports and statements from computing and tabulating operations
   Schedules computing and tabulating equipment
   Maintains accuracy controls and systems to govern use of computer and tabulating equipment
5. Records
   Maintains centralized files
   Operates and maintains microfilming facilities and files of microfilmed material

PROPERTY MANAGEMENT

Property management could embrace two phases: *first,* the planning of property needs; and *second,* the management of its use. The planning of *producing* properties is considered below under planning; their management is considered above under production. Properties included here are the buildings, equipment, and machinery used for offices, for stores, or for other nonproducing purposes.

The property management service would include negotiations for property interests (leases, rentals), planning of property utilization, and management of housekeeping services. Many companies have proved the worth of a planned approach to negotiations and professional operation after acquisition. Property management provides a point for developing specialized knowledge of property values, local practices on leases and rentals, and maintenance and operating methods which in turn generate substantial savings in property acquisition.

Typical Functions

1. Determines and recommends company's nonproducing property requirements
2. Determines and recommends most economical terms of use; that is, lease, rent, own, etc.
3. Determines building requirements as to size, equipment, and locations
4. Appraises utilization of existing property
5. Advises on design and layout of new and altered properties
6. Secures tenants for unused space
7. Makes periodic inspection of facilities and properties
8. Evaluates desirability of retaining, reconditioning, or disposing of property
9. Recommends acquisitions, additions, alterations, replacements, maintenance, and disposal of properties and conducts required negotiations
10. Determines what property is surplus, recommends its disposal, and arranges for its sale or lease
11. Recommends desirable ratios between old and new properties
12. Advises on insurance requirements and exposure to insurable losses
13. Prescribes required property records
14. Arranges for required appraisals
15. Evaluates real estate assessments and arranges for their negotiations
16. Manages restaurant and cafeteria facilities

PROCEDURES AND METHODS

"Procedures" prescribes the steps by which tasks are accomplished and the organization units or persons responsible for those steps. Procedures can also prescribe the standards or limits within which particular tasks are to be done or particular events recorded (standard practices).

"Methods" deals with the mechanisms for accomplishing certain

prescribed tasks—the office machines or the forms and record systems to be employed.

This activity applies the same analysis and measurement to office processes—office work flow, record keeping, and paper handling—that industrial engineering applies to the plant production processes. In many companies, plant and office analysis will not be separated, and industrial engineering will handle both.

Typical Functions

1. Procedures
   - Prescribes the sequence in which company activities are conducted and the relationships between company departments in accomplishing these activities
   - Develops and issues procedures on such matters as personnel regulations and records; handling of orders and inquiries; handling of customers' complaints and claims; public contacts; expenditures; capital appropriations; planning of facilities; planning of new products; rating of employees; credit extensions and collections; purchasing; planning the distribution of company products; pricing; and procurement of office space, facilities, and supplies
   - Develops and issues standard-practice regulations on employee selection, expense allowances, purchasing limits, employee compensation, reports and control thereof, files and records, speeches and articles, exhibits, conventions, and plant visits
   - Issues procedures on compliance with Federal, state, and local laws
   - Compiles and maintains company policy and procedure manuals
   - Develops controls for effecting compliance with procedures and practices
   - Analyzes work flow and paper handling
2. Methods
   - Designs and controls forms and records
   - Analyzes and determines communication needs and types of communication systems
   - Determines company-wide policies on and collaborates in selec-

tion of office space, layouts, equipment, facilities, and supplies
Conducts clerical time studies and analyzes job loading
Reviews clerical costs and establishes clerical cost-control methods
Develops standards for measuring performance and setting objectives
Establishes methods and standards for the storage and retention of records
Appraises efficiency of operating methods in proposed acquisitions

OFFICE MANAGEMENT

The office-management activity differs from all the others described in this and the two preceding chapters in that it has no particular organizational identification of its own—it appears in many places and in a variety of situations throughout the organization. Wherever there is a large group of people and a complex activity, specialized attention to office management may be in order.

The office manager deals with the most efficient organization of clerical functions and the most effective utilization of office equipment and facilities. He manages the performance of clerical work and often provides stenographic, clerical, and other housekeeping services. He plans and maintains routine office supplies, and he usually handles the mail and other communications services. In short, the office manager directs the office routines, thus relieving other members of concern with detailed clerical services.

Typical Functions

1. Arranges office space and layouts
2. Determines and arranges for lighting, heating, ventilation, and acoustics requirements
3. Arranges for necessary office partitions and floor coverings
4. Provides and maintains lockerrooms, toilet facilities, drinking fountains, and elevator service
5. Prescribes the cleaning, maintenance, protection and safekeeping, and other custodial requirements of the office and office facilities

6. Provides office supplies, equipment, machinery, and appliances
7. Provides centralized filing and storage, and supervises destruction of records
8. Provides internal duplicating services
9. Provides reception, chauffeur, secretarial, stenographic, transcribing and typing services, and supervises centralized clerical pools
10. Operates internal communications systems
11. Develops standard stationery forms and maintains adequate stationery supplies
12. Receives, distributes, and dispatches mail and interoffice messages
13. Maintains special records required for the unit's operation
14. Analyzes relative costs of renting or leasing equipment and of service contracts with outside organizations

11. PLANNING AND CONTROL

Planning and control activities are characterized by their attention to the future and how to meet it—even the backward look of appraisal has as its objective the recasting of the future. Here, also, as in the case of service activities, is found the type of professional knowledge, training, and skills which extends into all businesses and industries. As business practices become more intricate and as technological developments continue to replace manpower in the production and distribution of goods, these activities can be expected to consume a larger and larger share of the enterprise's total payroll. The recession of 1957–1958 demonstrated this trend. In this period companies generally found that, because of a higher percentage of professional personnel, total employment costs declined much less than in previous business downturns.

Every member of an enterprise shares responsibility for planning the future development of that enterprise. Office clerks, salesmen, foremen, buyers, etc., as well as managers, vice-presidents, and presidents have a stake in its future, and their own positions increase in significance as they contribute to the organization's future development.

The scope and sweep of planning thus require active participation by each department, unit, and individual. Coordinated plans should be

developed at each level and should project a course of action which will take full advantage of the available resources and potential conditions at that level.

Planning at the operating level (that is, the level at which a work activity is directed and coordinated) contains three phases:

First: developing data and information about the operation

Second: advising on how the operation may fit into the over-all department or company plan and developing internal plans where coordination with other areas is unnecessary or where unusual circumstances require immediate action

Third: developing a program for carrying out its respective part of over-all plans after such plans are developed by top management

Planning at management levels (that is, the level which directs one or more operating levels) also contains three phases:

First: coordinating the data and proposals from all subordinate segments to assure that all parts move forward on the same front at the same time

Second: applying management viewpoints or confidential information to the data and proposals

Third: developing consolidated and interunit coordinated plans

At each planning level the formalized planning activity—that is, the actual process of analyzing and integrating the information available at that level and incorporating this information into a composite picture —may require the full-time attention of one individual or a group of individuals, or it may require only the part-time attention of one individual. At some point—even if only at the very top of the organization—the formal aspects of planning should be separated from execution. There are three fundamental reasons for this: First, the urgency of execution takes, or should take, the full energies of one engaged in managing day-to-day activities. Second, too firm an attachment to past and present conditions, so often characteristic of one engaged in daily execution, tends unduly to influence the future course. Third, effective planning requires an over-all view of all phases of an

activity, and such a composite view is better obtained if the planning is done by someone who can view the activity objectively. Special attention to this formal aspect of planning permits a concentration on the future, unfettered by present and past conditions which may be irrelevant to the future.

Chapter 1 above sets forth various steps for several types of planning. In the listings which follow, the functions for each type of planning are described. It should be emphasized that these planning activities could be located at various places in the organization, and the grouping of them here is not meant to imply a centralization of all planning. Commercial planning, for instance, might be carried on in the sales department. However, if there were someone with top-management planning responsibility who coordinated and developed an over-all company planning program, he could, under some circumstances, assume responsibility for many of the following planning activities, relying on the several departments for essential data and information.

ORGANIZATION PLANNING

Typical Functions

1. Develops and recommends organization objectives and policies
2. Analyzes existing functions, structures, and responsibility assignments
3. Evaluates existing organizations for conformity with organization objectives and policies
4. Determines what activities are required or can be afforded by the organization
5. Develops organization structures and responsibility assignments
6. Develops programs for the installation of proposed organization changes
7. Audits conformance with organization plans
8. Collaborates in staffing new organizations
9. Coordinates organization plans with personnel requirements
10. Develops long-range organization plans and objectives

11. Advises on organization requirements arising out of new developments
12. Analyzes organizations of other companies
13. Appraises organization types and forms and evaluates their applicability to company needs
14. Develops organization charting methods and techniques
15. Develops and maintains organization manuals
16. Appraises organization structure and requirements of proposed acquisitions

PRODUCT PLANNING

Typical Functions

1. Plans the integration, simplification, diversification, and standardization of the company product line
2. Appraises adequacy and profitability of existing products
3. Appraises and evaluates data on production costs by facility and product
4. Appraises product distribution costs and methods
5. Analyzes the type of use to which customers put company products
6. Develops methods for stimulating new product ideas among company personnel
7. Prepares product proposals
8. Establishes a timetable for the development of product proposals
9. Establishes financial budgets for exploring new product proposals
10. Balances technical (can it be designed?), operational (can it be made?), financial (can it bring a profit?), and commercial (can it be sold?) considerations in the development of a new product and coordinates other management-planning aspects of such development
11. Analyzes effect of proposed new products on existing products
12. Determines timing of and supervises pilot runs of new product proposals

13. Conducts field tests and consumer surveys of proposed new products
14. Appraises the effect of competition upon existing or proposed products
15. Compiles data required for patent applications
16. Advises on product requirements in the planning of new facilities
17. Advises on appropriateness of new product lines
18. Appraises the product line of proposed acquisitions for suitability with existing lines, adequacy of performance, and technical and production soundness

FACILITY PLANNING

Typical Functions

1. Appraises and evaluates data on production costs by facility and product
2. Determines profitability of productive facilities
3. Develops alternative methods for meeting facility needs, as through acquisitions, alterations, rehabilitation, etc.
4. Appraises current appropriation requests for conformity with long-range plans
5. Coordinates the processing of facility plans and requests
6. Reviews and appraises new productive techniques, new facility designs, and new technological developments as they affect facility plans
7. Determines facilities needed to meet future requirements and studies best possible location of these facilities
8. Determines effect of new facility proposals upon existing facilities
9. Advises on facility requirements in the planning of new products
10. Appraises adequacy and soundness of facilities in proposed acquisitions

OPERATIONS PLANNING (PRODUCTION METHODS AND PRACTICES)

Typical Functions

1. Reviews and appraises new production techniques, new equipment designs, and new production equipment
2. Appraises existing production methods and practices
3. Determines and recommends company production needs and objectives
4. Determines and recommends type and term of equipment use, that is, lease, own, rent
5. Determines requirements for and recommends capacities, types, and location of production equipment
6. Recommends policies on equipment suppliers and on terms with these suppliers
7. Recommends maintenance requirements and schedules
8. Evaluates and recommends desirability of retaining, reconditioning, or disposing of property
9. Advises on design and layout of new production facilities

MATERIAL SUPPLY AND INVENTORY PLANNING

Typical Functions

1. Analyzes sources of supply, price trends, supplier capacities and limitations
2. Determines supplier's terms and practices
3. Advises on acquisition of material supply sources
4. Advises on negotiation of procurement contracts
5. Advises on the disposition of surplus or obsolete supplies
6. Advises on revision in product standards and specifications
7. Advises on revision in movement and storage methods
8. Determines quantities required to maintain desired inventory levels of all materials, supplies, equipment, and products
9. Analyzes inventory investment and turnover rates

10. Advises on supply and inventory aspects in the planning of new products and facilities
11. Appraises condition of present inventory in proposed acquisitions

FINANCIAL PLANNING

Typical Functions

1. Establishes desired percentage of return on investment
2. Establishes profit objectives
3. Appraises results received from moneys expended: profit performance
4. Develops working-capital ratios for board of directors' approval
5. Develops adequate ratios between capital investment and productive capacity
6. Recommends policies on dividend and surplus ratios and reinvestment of earnings
7. Compares performance against the budget
8. Determines future financial needs
9. Determines methods of financing and the timing of security issues
10. Reviews appropriation requests for conformity with financial plans
11. Reviews company and department budgets to assure conformity with company policy
12. Reviews audits of budgeted expenditures
13. Advises on financial requirements in the planning of new products and facilities
14. Analyzes economic trends and their effect upon company operations
15. Appraises financial soundness of proposed acquisitions, including earning potentials, inventory and plant, recovery of investment, and financial worth

COMMERCIAL PLANNING

Typical Functions

1. Appraises commercial, economic, and political developments
2. Interprets general economic conditions
3. Analyzes population and industry trends and other factors affecting market requirements and shifts in markets
4. Develops forecasts of long-term business prospects
5. Reviews product lines for future development
6. Reviews proposed selection, location, and size of new plants, warehouses, and other properties for conformity with long-range plans
7. Analyzes possible future distribution patterns and costs
8. Appraises commercial soundness of proposed acquisitions, including markets, competition, sources of supply, and sales methods

HUMAN RESOURCE PLANNING

Typical Functions

1. Analyzes and forecasts future personnel requirements
2. Reviews and analyzes causes of labor difficulties
3. Collaborates with outside institutions in establishing long-range training programs
4. Reviews salary trends and other employment costs and plans long-range salary requirements
5. Advises on availability of personnel in the planning of new products and facilities
6. Appraises management and personnel conditions and requirements in proposed acquisitions

DEVELOPMENT PLANNING

Typical Functions

1. Appraises and classifies types and extent of resources possessed by the enterprise and the personnel employed within it, in-

cluding financial position, organization, management, personnel capability, commercial position, distribution channels, competition, markets, product potential, facilities, and inventory

2. Evaluates desirability of retaining or disposing of existing lines of business
3. Investigates new areas of business or expansion of existing areas for the utilization of existing company resources
4. Appraises the desirability of internal expansion for increasing business opportunity
5. Investigates opportunities for the acquisition of outside companies
6. Makes initial evaluation of outside companies which are available for purchase
7. Arranges for negotiations entailed in the disposal or acquisition of operating units
8. Advises on methods for integrating new acquisitions into existing operations

PRODUCTION PLANNING (PRODUCTION SCHEDULING)

Production planning is the organization of men, materials, facilities, and money to assure a predetermined output of product in a given period of time. It requires a knowledge of each item's production cost, the capacity needed for its production, the time required for production, the financial resources required, and a forecast of what can be sold. Production planning utilizes the information supplied to it to coordinate sales and production requirements so as to assure the most profitable level of production within the available market.

Typical Functions

1. Liaison

   Coordinates the sales and production departments in the development of a coordinated sales-production program

   Collaborates with the finance and traffic departments in securing coordination of financial and traffic requirements and production plans

Advises the sales department on possible production curtailment
Advises the production department on possible order decline or carry-over or other matters affecting schedules
Coordinates the sales and production departments in adjusting and modifying production schedules as required by sales or production considerations

2. Methods and procedure
   Establishes procedure for interdepartmental production planning
   Develops controls for entering, servicing, scheduling, and shipping of orders so as to assure attainment of production plans
   Prescribes methods, systems, and procedures for booking of orders
   Prescribes standard forms for sales and production information
3. Production engineering
   Investigates and proposes remedies for production bottlenecks
   Collaborates with accounting in developing product coding

CONCLUSION

The purpose of business enterprise is to serve the general welfare. The function of management is to see that the enterprise fulfills this objective through meeting the needs of its owners, its customers, its employees, and the general public.

This book has dealt with the techniques of management and the spirit in which these techniques are applied. Management is both creative and systematic. It can be studied and incorporated into the individual's knowledge. It can be practiced, and, with experience, this practice can be perfected. But it must also be "felt"—the management personality must embrace emotional as well as intellectual disciplines.

The manager's job consists of five parts: planning, organizing, staffing, executing, and appraising. A growing body of knowledge on the application of these parts is becoming available for all to use; the wise manager takes this knowledge and adapts it to his own situation.

The last fifty years have seen remarkable progress in the evolution of business management. This era has brought many changes in the practices of management: a changed attitude toward the worker (he is regarded less and less as a mere cog); maturity of labor-management relations; attention to the training and development of personnel; and acceptance of the enterprise's community responsibilities.

The manager of the future will continue to marshal the instruments

of production for the satisfaction of human need and for the improvement of man's physical environment. His enterprise will be planned, organized, and staffed in accordance with orderly management methods. But he will add another dimension: the enterprise's human resources will be more fully developed; the individual personality will find increased creative expression; and the fields of anthropology, sociology, and social psychology will become legitimate arms of the business enterprise.

As we seek the answers to such important questions as, What is management? What are its techniques? And what are its goals? we must formulate a direction, a reason for being. The author's view of that reason is this: Business organization must, in its own ways, contribute to man's personal fulfillment. And it is the manager's task to provide opportunities for the creative expression of human personality to members within the organization and—as a provider of goods or services—to recipients of the enterprise's product.

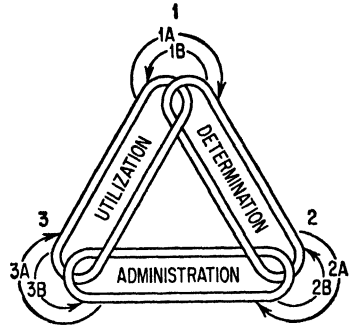
DEVELOPING A SCIENCE OF MANAGEMENT

The scientific study of human organization is really just beginning, and the demands on future management may well change the course of administrative practice. Research and speculation are rapidly expanding our frontiers of knowledge. Following are some recent contributions to the dynamic concepts of human factors in management which are particularly important for their freshness of approach.

William Brownrigg proposes that there are four basic requirements for all human enterprises: [1] (1) people; (2) physical things; (3) subject-matter knowledge; (4) process through which people integrate their efforts with physical things and subject-matter knowledge. The latter is in turn composed of three parts: (*a*) determination, (*b*) administration, and (*c*) utilization. The accompanying charts of these relationships are particularly intriguing.

[1] *The Human Enterprise Process and Its Administration,* University of Alabama Press, University, Alabama, 1954.

RELATIONSHIPS BETWEEN THE FUNCTIONS OF THE HUMAN ENTERPRISE PROCESS

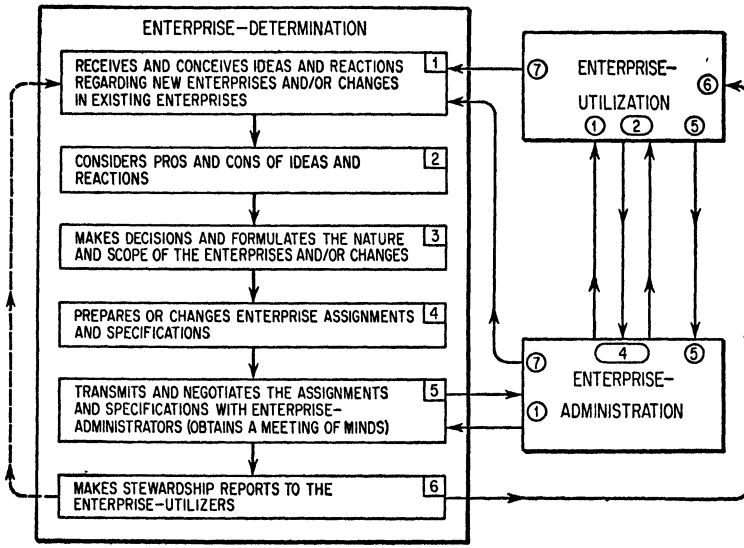


TWO-WAY RELATIONSHIP AT EACH JUNCTION

1. A. *Utilizers* exert influence upon Determiners to create new enterprises and to change or discontinue existing ones.
   B. *Determiners* report to Utilizers regarding enterprises created, changed and discontinued, and regarding problems encountered.
2. A. *Determiners* assign new enterprises and changes in existing ones to Administrators, and negotiate with them regarding assignments.
   B. *Administrators* report problems and difficulties to the Determiners, and make suggestions for changes in assignments.
3. A. *Administrators* explain enterprises and their operation to the Utilizers, deliver products of the enterprise to them, and report to and confer with them on suggestions and criticisms.
   B. *Utilizers* exert influences upon Administrators to improve the products of enterprises, and to reduce their disadvantages.

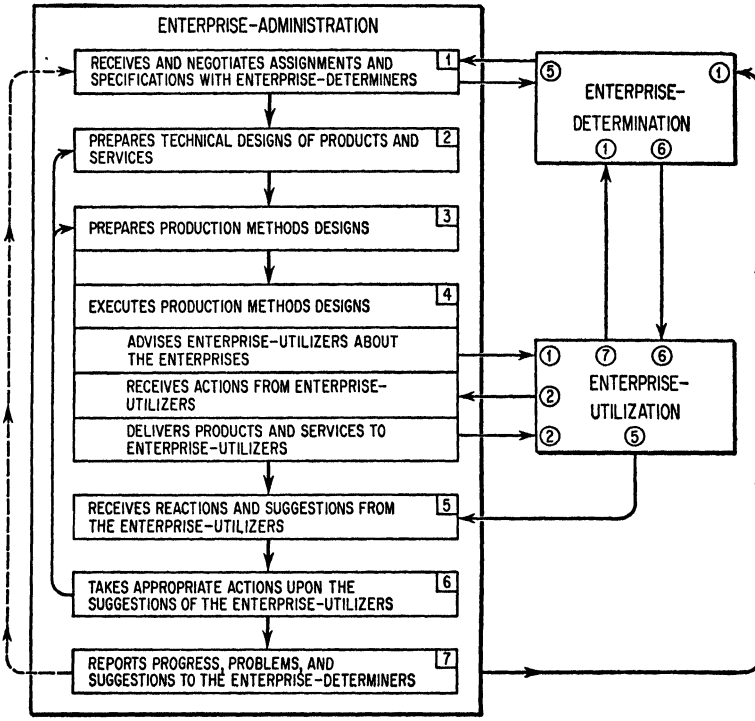
William Brownrigg, *The Human Enterprise Process and Its Administration.* University of Alabama Press, University, Alabama. 1954.

PROCESS FLOW CHART:
THE FUNCTION OF ENTERPRISE-DETERMINATION



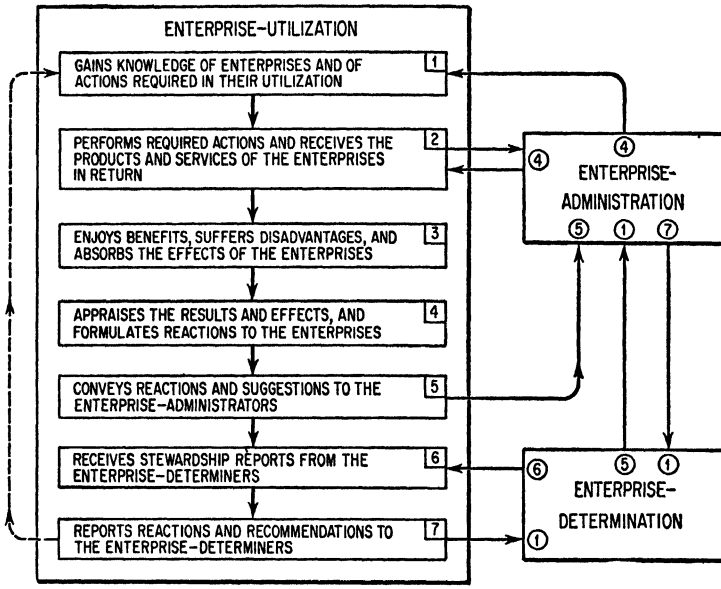
William Brownrigg, *The Human Enterprise Process and Its Administration.* University of Alabama Press, University, Alabama. 1954.

PROCESS FLOW CHART:
THE FUNCTION OF ENTERPRISE-ADMINISTRATION



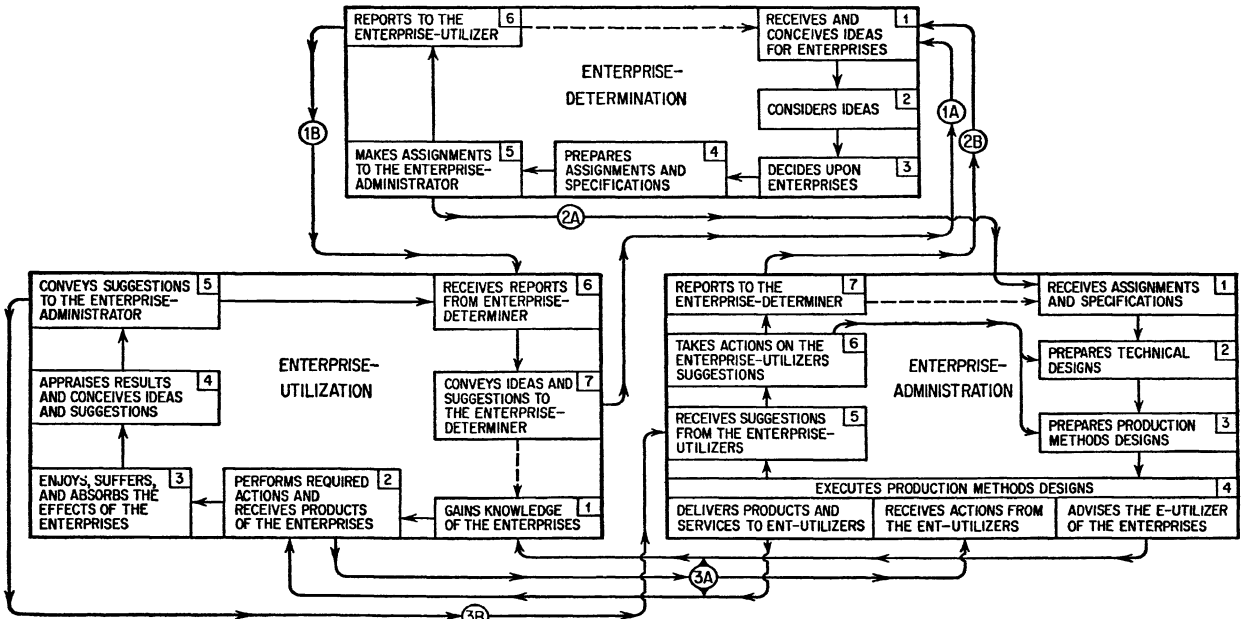
William Brownrigg, *The Human Enterprise Process and Its Administration.* University of Alabama Press, University, Alabama. 1954.

PROCESS FLOW CHART:
THE FUNCTION OF ENTERPRISE-UTILIZATION



William Brownrigg, *The Human Enterprise Process and Its Administration.* University of Alabama Press, University, Alabama. 1954.

The Integrated Dynamics of the Total Human Enterprise Process



William Brownrigg, *The Human Enterprise Process and Its Administration.* University of Alabama Press, University, Alabama. 1954.

Another writer—E. H. von Delden—has pointed out the need for a new set of rules for human relations in American business. He suggests that an understanding of these characteristics of human behavior will lead to better human relations: [2] (1) All of us resent domination, and we tend to chafe at restrictions on our freedom. (2) We all enjoy a good fight, but it is difficult to fight with those we like. (3) We are more likely to agree with those we like personally. (4) We are inherent sentimentalists, and we become sentimentally attached to those things we value. (5) We all want to feel important, and we look for acceptance as a person. (6) We all want to be "in the know," and we wish to be informed on whatever concerns us. (7) We like to win out over obstacles, and we want to feel we are entitled to everything we receive. (8) We are all different; human beings have neither the same potential nor the same actual capacities. (9) We must recognize the inevitability of gradualness and must realize that people resent being pushed into new ways of thinking or acting. (10) We all want all we can get, and if convinced we are not getting a square deal, we sometimes become unreasonable.

A significant contribution to the thinking on administrative theory is made by Chris Argyris. He suggests that people in our culture: [3]

1. Tend to develop from receiving and incorporating aspects of culture as an infant to controlling, using, redefining, and helping others incorporate these aspects of culture as an adult
2. Develop from a state of being passive as an infant (i.e., having other people initiate action for them) to a state of being increasingly active as an adult (i.e., they initiate action as much or more than other people do for them)
3. Develop from being capable of behaving only in a few ways and in a rigid manner as an infant to being capable of behaving in many different ways and behaving in a flexible manner as an adult
4. Develop from being in a subordinate position in the family and society as an infant, to occupying a more equal and/or superordinate position in the family and society as an adult

[2] "The 10 Basic Principles of Sound Human Relations," in *The Supervisor's Management Guide*, American Management Association, New York, 1949, pp. 11–17.

[3] "Organizational Leadership and Participative Management," *Journal of Business*, pp. 4–5, January, 1955. Used with permission of the University of Chicago Press.

5. Develop from a state of high dependence on others as an infant to a state of independence and finally to a state of interdependence in their society as an adult

If we assume, for a moment, that the people who come to work for us are relatively normal, then may we not conclude that these people will tend to desire to find work which will help them fulfill some combination of the above trends? (The exact combination naturally depends on the individual.) In order to accomplish this, Argyris points out, an individual would require a job in which he can:

1. Define for himself a ratio of activity (initiation of action) to passivity where activity is greater than passivity (passivity defined as others initiating action for the individual)
2. Define for himself a position equal and/or superordinate to the other people with whom he interacts
3. Define for himself tasks where he is able to provide expression for the many learned ways of behaving that are important to him (this includes the expression of important abilities, needs, sentiments, and personal goals)
4. Define for himself a sense of fluidity and flexibility that is comparable to his personality fluidity and flexibility
5. Express feelings of independence and interdependence in relation to the other people in the organization
6. Feel that he has the respect of other individuals who are important in his life
7. Obtain from his job a degree of creature sufficiency he desires

In another study, Argyris identified seven basic organization processes in human enterprise. He starts with the assumption that an organization, as yet undefined, must (1) achieve its objectives, (2) maintain itself internally, (3) adapt itself to its external environment, and (4) use human beings as its agents.

If these assumptions are accepted, the following basic organizational processes can be derived from the assumption: [4]

1. A *workflow* process whose purpose is to define the exact behavior required by the agents of the organization to produce its product or to perform its service.
2. A *reward and penalty* process whose purpose is to reward those agents

[4] *Executive Leadership*, Harper & Brothers, New York, 1953, pp. 131–132.

who behave as the organization requires and punish those agents who do not.

3. An *authority* process (*a*) to coordinate, control, and direct the agents, (*b*) to compel attention to the organizationally relevant and to the personality needs of the agents, and (*c*) to maintain a constant vigil over the fusion process between the agents and their jobs.
4. A *perpetuation* process whose purpose is to maintain and replenish in quantity and quality the basic resources that go to make up organizations (i.e., men, materials, and ideas).
5. An *identification* process whose purpose is (1) to select and define clearly understood emotionally toned symbols, concepts, or other such aspects, (2) to help individual agents identify with the organization as a whole, which in turn, (3) automatically helps define the uniqueness of the organization to "outsiders" in the larger environment in which it is imbedded.
6. A *communication* process to provide ways, media, and paths for communication among the agents.
7. A *status* process which provides for the ranking of agents, materials, and ideas in terms of their importance or prestige. The status process, we ought to point out, is not as basic and as necessary a process as the others. It becomes necessary only after people begin to evaluate themselves, their materials, and their ideas, and then begin to act in accordance with these rankings.

Edward H. Litchfield proposes a series of working hypotheses as a framework for administrative theory. Here is a synthesis of many current ideas on administration which most observers and practitioners will accept. It is well to have such a synthesis of thought, but, as Dr. Litchfield points out, these hypotheses must be tested by empirical evidence.

Dr. Litchfield divides his hypotheses into major and minor propositions.[5]

First major: The administrative process is a cycle of action which includes the following specific activities:

1. Decision making
2. Programing
3. Communicating
4. Controlling

[5] Edward H. Litchfield, "Notes on a General Theory of Administration," *Administrative Science Quarterly*, pp. 3–29, June, 1956.

5. Reappraising

Minor: Decision making may be rational, deliberative, discretionary, purposive, or it may be irrational, habitual, obligatory, random, or any combination thereof. In its rational, deliberative, discretionary, and purposive form, it is performed by means of the following subactivities:

1. Definition of the issue
2. Analysis of the existing situation
3. Calculation and delineation of alternatives
4. Deliberation
5. Choice

Minor: Decisions become guides to action after they have been interpreted in the form of specific programs.

Minor: The effectiveness of a programed decision will vary with the extent to which it is communicated to those of whom action is required.

Minor: Action required by a programed and communicated decision is more nearly assured if standards of performance are established and enforced.

Minor: Decisions are based on facts, assumptions, and values which are subject to change. To retain their validity, decisions must therefore be reviewed and revised as rapidly as change occurs.

Second Major: The administrative process functions in the areas of:

1. Policy
2. Resources
3. Execution

Minor: Action in each functional area is accomplished by means of the action cycle previously described.

Minor: Each function seeks a value which, when realized, is its contribution to the administrative process.

Minor: Each function has distinctive characteristics which govern the application of the cycle to it.

Minor: The functional areas of administration are integrally related to one another.

Third Major: The administrative process is carried on in the context of a larger action system, the dimensions of which are:

1. The administrative process

2. The individual performing the administrative process
3. The total enterprise within which the individual performs the process
4. The ecology within which the individual and enterprise function

Minor: While constant in basic structure, the administrative process will vary in important aspects, depending upon the personality of the person performing it.

Minor: While constant in basic structure, the administrative process will vary in important respects, depending upon the character of the total enterprise within which it is performed.

Minor: While constant in basic structure, the administrative process will vary in important respects, depending upon the environment in which the individual and the total enterprise function.

Minor: The types of relationships existing among the three dimensions, other than the administrative, have an effect upon the administrative process.

Fourth Major: Administration is the performance of the administrative process by an individual or a group in the context of an enterprise functioning in its environment.

Minor: Administration as a totality has definable attributes. They are:

1. It seeks to perpetuate itself.
2. It seeks to preserve its internal well-being.
3. It seeks to preserve itself vis-à-vis others.
4. It seeks growth.

Minor: The attributes of the totality of administration have significant effects upon administrative behavior.

Fifth Major: Administration and the administrative process occur in substantially the same generalized form in industrial, commercial, civil, educational, military, and hospital organizations.

A. Zaleznik, C. R. Christensen, and F. J. Roethlisberger in their book, *The Motivation, Productivity, and Satisfaction of Workers,*[6] suggest a very intriguing set of hypotheses on the dynamic aspects of business organization.

[6] Division of Research, Harvard University Graduate School of Business Administration, Boston, Mass., 1958.

HYPOTHESES USED TO PREDICT ABOUT MATTERS OF INTERACTION, PARTICIPATION IN NONWORK ACTIVITIES, AND FRIENDSHIPS

Hypothesis 1. The closer the functional proximity of individuals or subgroups, the more frequent the interactions between them.

Hypothesis 2. The higher the status of an individual or subgroup, the higher the frequency of interaction.

Hypothesis 3. The more nearly equal the status of individuals or subgroups, the more frequent the interactions between them.

Hypothesis 4. The more "well established" the social status of an individual is, the more he will interact with others.

Hypothesis 5. The more "well established" the social status of an individual is, the more he will participate in nonwork activities.

Hypothesis 6. The more frequently individuals or subgroups interact with one another, the stronger their sentiments of friendship are apt to be.

Hypothesis 7. The more status factors that members of a work group have in common with others, the more likely they are to interact and form bonds of liking and friendship; also the less status factors they have in common, the less likely are they to form such bonds.

Hypothesis 8. The development of enduring patterns of interpersonal relationships in the internal system (friendships, cliques, subgroups, etc.) varies as the interactions required and allowed by the external system are reinforced by the number of status factors that the interacting members have in common by the external system:

(*a*) Where they are reinforced, more enduring patterns of interpersonal relationships will be formed.

(*b*) Where they are not reinforced, less enduring patterns of interpersonal relationships will be formed.

HYPOTHESES USED TO PREDICT ABOUT MATTERS OF INTERNAL RANK AND MEMBERSHIP

Hypothesis 9. Rank in the internal system varies as status in the external.

Hypothesis 10. The higher the external status of individuals or subgroups, the more nearly their internal system activities about work and nonwork will realize the norms and values of the group.

Hypothesis 11. The more "well established" the social status of individuals or subgroups is, the more nearly their internal sys-

tem activities about work and nonwork will realize the norms and values of the group.

Hypothesis 12. The higher the total status of an individual, the more likely his activities will realize the norms of the group and hence the more likely he will become a member of the group.

Hypothesis 13. The more "well established" the social status of an individual is, the more amenable to the norms of the group he will be and hence the more likely he will become a member of the group.

Hypothesis 14. The higher (but not too high) the total status and the more "well established" his social status is, the more likely he will be a high ranking group member or informal social leader; the lower the total status and the less "well established" his social status is, the more likely he will be an isolate.

Hypothesis 15. The higher the total status of an individual and the less "well established" his social status, the more likely he will be an isolate or a "task leader."

Hypothesis 16. Individuals with high status and high social status congruence who are members of work groups with high status and high social status congruence will tend to become "informal leaders."

Hypothesis 17. Individuals whose monetary rewards exceed their social investments will tend to take on more responsibility and thus are more likely to become "informal leaders."

HYPOTHESES USED TO PREDICT ABOUT MATTERS OF PRODUCTIVITY

Hypothesis 18. The higher the status and the more "well established" the social status ranking of individuals or a subgroup are, the more nearly will they tend to meet (but not exceed) management's expectation and the group's norms about productivity.

Hypothesis 19. Individual productivity varies as the rewards received from management and the group:

(*a*) Where an individual is rewarded both by management and the group he will produce close to the norms of the group, i.e., on-the-line.

(*b*) Where an individual is rewarded by management but not by the group he will be a "rate buster," i.e., high producer.

(*c*) Where an individual is not rewarded by management but is rewarded by the group, he will produce close to or slightly lower than the norms of the group.

(*d*) Where an individual is rewarded by neither manage-

ment nor the group, he will produce below the norms of the group.

Hypothesis 20. The more the social background of a worker differs from that of the majority of the workers in the department (i.e., the stronger his needs for differentiation), the less amenable he will be to the output norms and the more likely he will produce high in deviating from on-the-line production.

Hypothesis 21. The more the worker aspires for job advancement, the more likely he will tend to produce high as a means of realizing this aspiration.

HYPOTHESES USED TO PREDICT ABOUT MATTERS OF SATISFACTION AND COMPLAINT

Hypothesis 22. Expressions of sentiment about status factors being "out of line" (sometimes expressed in the form of complaints) will vary inversely in amount with the degree to which the status ranks of individuals or subgroups are "well established."

Hypothesis 23. Work groups whose status ranks are more "well established" will provide greater social satisfactions for their members than work groups whose status ranks are less "well established."

Hypothesis 24. The higher the job status of individuals or subgroups, the more satisfied they will be.

Hypothesis 25. The more "well established" the social status of individuals or subgroups, the more satisfied they will be.

Hypothesis 26. The higher the job status and the more "well established" the social status of individuals or subgroups, the more satisfied they will be.

Hypothesis 27. The more the monetary returns of individuals or subgroups are proportional to or exceed their social investments, the more satisfied they will be with the pay they receive as well as with things in general.

Hypothesis 28. The more the monetary returns of individuals or subgroups fall short of their social investments, the more they will complain about their pay and things in general.

Hypothesis 29. The individual's satisfaction varies as his rewards from management and the group:

(*a*) Where an individual is rewarded both by management and the group, he will be satisfied.

(*b*) Where an individual is rewarded by management but not by the group, he will be dissatisfied.

(*c*) Where an individual is not rewarded by management

but is rewarded by the group, he will be somewhat dissatisfied.

(*d*) Where an individual is rewarded neither by management nor the group, he will be the most dissatisfied.

Hypothesis 30. The higher the status and the more "well established" the social status of individual or subgroups, the more will they be disturbed by management changes.

Hypothesis 31. The more nearly the foreman accommodates his methods of supervision to the status ranks of individuals and subgroups, and their norms of behavior, the more his methods will be perceived by the workers as "fair" and the more satisfied they will be with him and his methods.

Professor Mason Haire directs our attention to the structure of living organisms and to the principles of construction as guides for patterns of organizations.[7]

> Let us . . . ask how size, shape, and function are connected in living organisms. Let us ask, "Why are human beings shaped the way they are?" The answer is quite clearly because they are the size that they are. If we were either very much bigger or very much smaller, we wouldn't be shaped as we are.
>
> Usually, in Jack-the-giant-killer illustrations, the giant is 10 times as big as Jack, but still proportioned just as he is. If the giant were 10 times as big as Jack and proportioned the same way, he would be 10 times as tall, 10 times as broad, and 10 times as thick. His mass would be 1,000 times Jack's—that is, 10 times 10 times 10. However his bones would be only 100 times as thick in cross section—that is, 10 times as broad and 10 times as thick. His volume has increased a thousandfold, while the cross section of his supporting members has only increased a hundredfold.
>
> Now, we know that the human bone will not support 10 times its normal load. If the strength of the giant's bones increases at the same rate as their size, they will not support his increased mass. As soon as he stands up to chase Jack, his leg bones will break; so Jack is perfectly safe in dealing with the immobilized giant. The poor giant is trapped by what is often called the square-cube-law—the fact that as linear dimensions increase, surface increases according to a square function, but volume increases according to a cube function. The giant

[7] "Toward a Theory of Industrial Organization" in *Changing Patterns and Concepts in Management*, American Management Association, General Management Series, no. 182, 1956.

was rendered impotent because he did not have the foresight to modify his shape to suit his size. He felt that his shape was suitable when he was a little giant, and it ought to be good enough for him now. His problem had changed, however. As his mass increased, he should have given up the shape Jack had and developed short stubby legs, probably angled out a little for better support, and then he could have borne his increased weight.

This connection between size and shape is not confined to Jack and the giant. We see it everywhere. In all animals, in general, as the mass increases, an increasing proportion must be devoted to the structural problem of supporting the increased weight. In a mouse or small bird, the bones are about 8 per cent of the total weight; in a dog, they are about 13 per cent; in a man, they become 17 or 18 per cent. When a body gets big, it must devote more of itself to supporting its bigness. In some cases, like the elephant or hippopotamus, a body becomes clumsy as well as big.

There are real limitations on shape and function that are imposed by size. If an animal grows a large head, it must be supported by a neck that is unusually thick and strong like a bull's or very short like an elephant's. It is unthinkable that a giraffe could be 10 times as big and still have a long, slender neck; for the same reason, the height of a tree is limited by the point at which it will bend under its own weight. The particular shape fits a particular range of sizes. It is not equally effective for all sizes.

This relationship is not a unique characteristic of living organisms. The three factors are closely connected in the inanimate world. For instance, a matchstick will not bend appreciably if we support its two ends. However, if we produce a timber 200 times as large in every dimension—say, 2 by 2 by 50 feet—and support it at its ends, it will begin to sag of its own weight. We must either make it of material different from the match or change its shape in order to preserve its bridging function.

This is a general problem in building bridges. There is a real limit to the possible size of a simple bridge without an arch to support it. In general, the strength of a bridge girder increases with the size of its cross section. Again, the square function is applicable. Its weight, however, increases as the cube of its linear dimension, and it is clear that we can increase the size of the bridge until it will not support its own weight. Similarly, it is clear that, of two bridges of identical geometrical structure, the larger will be the weaker of the two since it is so heavily strained by its own weight. If we try to keep the same

proportion among the parts and increase the size, the bridge is no longer able to discharge its function.

To take another example—if we fix a shelf to the wall and put a weight on the end, it is subjected to certain bending moments. The force of these bending moments is greatest at the wall, the farthest distance from the weight; the strain is less and less as we go out along the shelf. Consequently, to reinforce the shelf we need a thick base near the wall and a progressively thinner one as we approach the end. The shape of the structure that will perform the function properly is a diagram of the moments of force acting on it.

We do not know what forces acting on an organization may tend to cause it to dissolve or fail in its function. But, as we make decisions about strengthening and enlarging it just here and just there, we are building a particular shape that, if it is a good one (that is, if it allows the organization to function effectively), will similarly serve as a diagram of the forces playing on the organization. Now we shall have made some progress. We shall still not know what the force is, but we shall know something about how strong it is at different points and how its strength increases under certain circumstances. Realizing this, we shall have taken a real step in the direction of knowing the nature of the force.

The main force that determines the shape of animals and bridges and trees is the force of gravity. It is gravity that breaks the giant's bones and makes the bridges sag, and it is the whale's relative freedom from it as he is suspended in water that makes it possible for him to grow to such tremendous proportions. What is the equivalent force that is playing on industrial organizations? I confess that I cannot name it or describe it at the moment. However, it is not an entirely dismal outlook. Hopefully, we are beginning to ask the right questions. Perhaps we are beginning to see the alternative changes in shape in organization. Now, if we can trace the history of industrial organizations through a series of changes, we may be able to draw some real inferences about the direction and strength of the forces that are associated with particular pressures. In speaking of the bending moments acting on a shelf, we saw that the good shelf represents, in its final form, a diagram of forces, since it provides support just where the force is strongest. Similarly, the good organization will draw a picture of the forces playing on it, since it will provide support just where the force is greatest. Thus we may not be able to name the

forces yet, but we are within a stone's throw of being able to describe them in considerable detail. After that step, the name is immaterial.

Dr. Haire concludes:

> What will we have to do next? Here business will have to brace itself for a big invasion, I think. Social science has not yet contributed as much as one would like to the development of management. As I suggested previously, this is due partly to our not having the right answers to our questions and partly to our not asking the right questions. As we begin to ask better questions, we shall need a host of data from businesses on changes in shape and size and function, and a lot of information about the reasons why such decisions were made. Many people are going to resist this kind of intrusion and poking about. Without it, however, we shall never be able to make a worth-while contribution to the science of management. It will remain always an art—and, to that extent, without the firm bench marks that might be desirable.
>
> In many ways, it seems to me that we are in a position similar to the one in which economists in business found themselves 40 years ago. They had some theoretical statements, but they needed data from actual economic operations to flesh out the conceptual skeleton. Many business men resented their intrusions and resisted giving out what they thought was "private" information. Today, however, we have come to rely on cost-of-living data, turnover data, car loadings, retail sales, and so on as guides for general business decisions. I think we are on the brink of a time when other behavioral data—other than economic, that is—will have to be systematically collected and made widely available, so that we shall be able, similarly, to flesh out the skeleton of the theory of management organization with more detailed information. When this happens, we shall shortly be able to give an affirmative answer to the question, "Is a science of management possible?"

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