

MANAGEMENT ETHICS

24 March 1950

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RESTRICTED

Mr. Thomas R. Reid was born in Monticello, Arkansas, on 20 April 1914. He received his B.S. in Business Administration from the University of Arkansas in 1935. Some of the positions he has held in the past few years have been: Assistant to Industry Members, National War Labor Board, Washington, D. C.; Organizer and First Chairman of the Personnel Policy Board, Department of Defense, Washington. He was appointed to this position by Secretary Forrestal, December 1948. For his work on this Board, he was awarded a Certificate of Appreciation and the Exceptional Civilian Service Medal by Secretary Louis Johnson, 1 September 1949. He is a member of the Baltimore City Council and on 6 May 1947 was elected for a 4-year term as Chairman of the Budget on Finance Committee for the City of Baltimore. The United States Junior Chamber of Commerce selected him as one of America's ten outstanding young men of 1947. At present Mr. Reid is Vice President, Human Relations; member, Senior Board of Directors, McCormick and Company, Inc., Baltimore, Maryland.

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COLONEL McKenzie: I think it is a perfectly valid assumption that if some of the early businessmen of this country of the type of the Vanderbilts, the Astors, the Harrimans, or the Hills were to come to life again and were to sit in on a management conference staff meeting that they would be quite surprised at the trend of conversations.

We are repeatedly told that economic mobilization must be accomplished by and through men. For that reason we have scheduled a lecture here this morning that, to my knowledge, has never been given at the Industrial College before. We feel it is important that in your studies of economic mobilization and in the future work you may do in that area that you should have an appreciation of the ethics of American managers. It is extremely appropriate that we have this lecture at this time before we go out on our field trip, at which time you will have an opportunity to meet so many of these outstanding business leaders of our country.

Having selected a topic that we felt was important, the question of selecting a speaker was a rather interesting experience. We went to McCormick and Company in Baltimore where, with its youthful and energetic president, we have noticed over the years outstanding leadership in this area. They have for their vice president our speaker this morning. He is a man whose stature was such that he was recognized by Secretary Forrestal and appointed the first chairman of the Civilian Personnel Policy Board.

It is my pleasure to introduce to the Industrial College and to our guests, Mr. Thomas R. Reid, Vice President of McCormick and Company. Mr. Reid.

MR. REID: Thank you, Colonel. Good morning, gentlemen. The story I shall relate today had its origin at the beginning of business and I hope will never end. It is the story of management ethics--the spiritual, moral, and ethical values in business which go along with the concept of making money and earning a profit. If they are overlooked, all society suffers. If they are observed, all society benefits.

My particular story begins about four or five years ago when my interest in this subject, which, I grant you, up to that time had been fairly dormant, was stirred into life by an invitation that came to me and a number of other business, labor, and religious leaders from General Robert Wood Johnson, President of Johnson and Johnson of New Brunswick, N. J. It was the kind of invitation that comes across a businessman's desk fairly regularly; an invitation to attend a conference to discuss a subject of general interest.

And yet, at the same time, it was the kind of invitation that you looked at once, looked at again, then said, "This is something I simply must not pass up." It said something like this: As a businessman, I have been concerned with a growing attitude of indifference to ethical values in management, and I'd like to get together a group of my associates to talk about it.

It was interesting to note that all the others who were invited apparently had the same reaction because with the exception of two men out of thirty-eight all turned up at the original meeting in New York to begin a series of discussions which turned out to be as interesting as any I have ever attended.

General Johnson opened the meeting pretty much in this way. He said, "I was asked by one of our industrial relations executives a few weeks ago if I would mind setting down on paper the basic beliefs of the management of Johnson and Johnson with relation to people--not in detail, but just the fundamentals of what we believe in and what our ideas are about our moral and ethical relations to other people."

General Johnson then went on to say, "I told the executive, 'Why, now I have a little free time this evening; I'll be glad to do it. You'll have it tomorrow morning.'" But when General Johnson sat down to do what he thought was a relatively simple task, he found himself completely stumped. So he told the executive the next morning, "I'm sorry I didn't get it done last night. This week end, however, I have some free time and I'll spend Saturday and Sunday on it. You'll have it Monday morning, sure."

So he spent Saturday and Sunday on it. He wrote and he rewrote; he destroyed what he had done. "Finally," he said, "I came, at the end of Sunday, to the sad conclusion I simply did not know how to set down on paper the basic policies in which we believe in dealing with other people. So," he explained to us, "I've called you together, as other businessmen who may have met this same problem, to see if you can help me set down in writing what are some of the ethical and moral concepts of business management in the modern-day world."

We set to work with that charge before us. We were vastly aided in our work by a group of people, that grew as we went along, from all areas of public life. We had representatives of both the CIO and the AFL who gave us the labor viewpoint in our discussions. We had presidents of some of the country's great corporations. We had men who were specialists in personnel and human relations, like myself, to give some technical tone to the meetings.

In the course of our discussions, however, we suddenly found that the people who were taking the leadership especially on many of the moral

and ethical problems turned out to be the religious leaders. I shall never forget one evening when our regular meeting was held in a private room at the Stork Club. I am quite sure the regular residents of the Stork Club still rub their eyes in amazement when they recall that evening when a group of priests, rabbis, ministers, and so on, passed through the bar and public room on the way to their meeting.

This discussion went on for a period of three years. We soon found we were concentrating more and more upon that part of the ethical relationship which concerned itself with dealings between management and labor. I cannot explain to you why our discussions took that turn, except for the fact that most of us, perhaps, were interested in that more than we were in some of the other relationships.

The publication which finally emerged, therefore, came out under the title, "Human Relations in Modern Business." It was published by the Harvard Business Review in September 1949 and has recently been published by Prentice-Hall, Inc. It contains, along with a listing of all the representatives of religion, labor, and business who participated in the discussions, a summary of the findings of that group.

It was my pleasure to serve on the final drafting of that statement. We drafted and redrafted many times a statement which we felt might be acceptable. Finally, we discovered that even our best effort was not acceptable to all participants. There were dissensions along the way. There were those who attempted to pull out of the original group because, for one thing, they could not accept some of the things a number of members of the group wanted to say about human relationships in management.

For one thing, the businessmen and the representatives of the church could not reconcile in some instances their full acceptance of the principle of unionism. I never could quite see--and some of my business associates could not quite see--why some of my colleagues in this group took the attitude no employee could possibly get a fair deal from management unless he had a union membership to protect him from management.

Our concept was that so long as management is ethical and so long as management is fair, the fact that it has a union or not is relatively unimportant; that it is not necessarily true that a union is required to protect the interest of a worker from a voracious management; it may be that, even without a union, workers and management can understand each other and arrive at common understandings.

At any rate, when the job was done all of us felt it was something of a miracle of coordinated effort. I think it is one of the few times that the Jewish, the Christian, and the Catholic Church have agreed on any document in its final form. I think it is one of the few times, too, that the CIO, the AFL, and the leading industrialists of this country

have agreed on a document in its final form. So, in spite of the few misgivings and the alterations in text which were necessary because of differences of opinion, there emerged from this three years of discussion a rather significant document.

I sincerely hope it enjoys wide circulation and wide attention. I hope it brings about more meetings like this where people of goodwill, good intent, and good minds sit down together to discuss the issue of ethics in management. We can no longer afford to neglect its importance. We can no longer afford to ignore it and only hope that the problems of moral and ethical values will solve themselves while we devote our principal attention to the more commercial aspects of business and management.

To look at it in its broad perspective, I think you might well visualize the problem of management in ethic and moral values very much better if you would see in your mind's eye a chain which might be called the "chain of business reaction." Visualize that chain, if you will, as made up of five links. In the center link, at the top, you might insert the word "management." Management becomes the central controlling force.

Below management, as the link immediately to the left, would be "ownership" of the business. Ownership and management, therefore, become the first links with which to begin a business. They may well be the same. In many small business operations it is customary for ownership and management to be the same.

In other instances, ownership, whether it be partnership or corporation, may be rather remote from management. In the larger corporations a great body of stockholders may select management and at the annual stockholders' meeting question whether management is doing its job well. But in the long run the relationships are as a link in a chain rather than as a common integral.

So we have the link called management and the link called ownership. Then on the other side there is a link called "employees" (or workers). Take those three links of the business chain together and you will see that business simply cannot run without all three. Somebody must provide the capital, put up the risk money, take the chance. Ownership, therefore becomes responsible for the very foundation of any business. Somebody must operate it, run it, determine its policies, and set its course. Management, therefore, becomes the second link. And, finally, someone must do its work. As I have often said, in discussing human relations, no one has yet invented a machine that was good for anything until a human being stepped into the picture to push a button to start it or stop it. Nobody has yet found a perpetual motion operation which would run mechanically without the help of human beings. So, employees (or workers) are essential to the success of any business operation. Nothing is produced until people go to work.

The third link in the chain, the employees (or workers), becomes closely tied up with ownership and management.

Now let us list some of the links that are joined to these top three. Let us call one of them "customers." Just as a business cannot operate until some worker or some employee pushes a button to start a machine, it becomes equally obvious no business has any use for the machine or anybody to push the button to start it or stop it unless there is somebody to buy its product. Therefore, the market for the product determines the number of employees, determines so many things, that the customer becomes a very important link in the chain. So let us put the customer as a link indissolubly joined to the others.

And finally, as the fifth link joining all the other links together, let us put in one that we might call the "community." The community in this sense represents all the public, all the people, whether customers, employees, or just the general public, who have some contact, in whatever way, with that business operation.

As we visualize that five-link chain, I would suggest you put around it in your mind's eye (because it should be all the way around it) a map of the United States. And as you do that, reflect on this fact, please: In my opinion, every business operation should look upon itself, first and foremost, as a part of the United States of America. Whatever else it does becomes secondary to that essential fact of citizenship in a nation, of obligation to a country, of responsibility to do whatever needs to be done as that business develops to protect the United States and all its people.

So, I have purposely not inserted government as a link in the chain of business reaction. I have suggested instead that the entire chain be surrounded by a symbolic map of the United States. The Government of the United States is much more than a link in a chain. The Government is so all-pervading and the necessity for retaining it and our Nation so almighty that it is more important than a mere link in a chain. As a matter of fact, it must become the overriding influence in all business activity.

Many of our ethical problems in business would be solved almost at once if you and I could be sure that every entrepreneur, every enterpriser, or businessman honestly thought of his business as responsible first and foremost to the United States of America. Take our problems in time of war, in assigning contractors and in encouraging business to divert their production from peacetime goods to the needs of wartime. There would be no problem if the ethical concept of every enterpriser and every manager was simply that the United States comes first; anything the United States wants me to do, I will do willingly and gladly in the interest of a better nation for all of us. So many of our problems would fall into place if that primary ethical concept existed.

Now, you and I well know that it does exist, but unfortunately not so extensively as it should. You and I well know there are many responsible enterprisers who have that attitude completely, and whose loyalty and good faith can be counted upon beyond a question of a doubt. The thing you and I must do in our contacts with businessmen is to try to expand that concept to the many who have not yet achieved it; to the many who simply cannot see that anything is more important than making a profit for their own individual interests.

With that picture before us, let us analyze the links in the chain. What is management's ethical responsibility to each of the links in the chain of business reaction to which it is joined? First of all, let us look at its responsibility to the chain we have marked ownership, who may be stockholders, partners, or investors in the business. They are the ones who own the business; their money has been put into it to provide the capital with which to operate.

Management's first responsibility to those who provide the risk capital is to protect their investment by making a profit. That becomes the first duty of management--to make a profit; to manage the business so successfully that a profit is earned over a period of years. Management may well be condemned by ownership, and may well be called into account at the annual meeting of stockholders if it has failed in that first charge. Regardless of how successful it may have been on all other counts, management must not fail in fulfilling that first charge.

Profit is the ammunition system which our American free-enterprise competitive system uses to keep businesses in operation, to provide products to customers, and to provide wages to employees. Without a profit, the business system stops. That becomes, then, the first obligation of a management executive--to make a profit. The ways in which he makes that profit will come into our discussion of his relationships with other units in the chain.

Management's responsibility to the next link in the chain, the employee (or worker), is one which is a wide-open topic. I think it is really the issue of the day for I do not know of anything that fascinates businessmen more right now than this problem of just exactly what is management's responsibility for those employees who work in our businesses. Frankly, we have seen a change in our time. We have seen an acceptance of a new idea of the ethical responsibility of an employer for the people who work for him. Maybe you have not sensed it, but I have, as a businessman. As a matter of fact, I think it is one of the most significant social developments of this current generation.

What has happened is simply this: The management of an enterprise is beginning to accept the concept of trusteeship for employees. In other words, management is now saying, "We have a responsibility for the

people who work for us, and for the families who depend for welfare upon the jobs of those people. And this responsibility which we now have goes beyond the mere payment of a fair wage at the end of the week."

In the fact-finding committee report on steel, presented to the President by Chairman Carroll Daugherty and his associates, there was one of the most significant social paragraphs I have ever seen. It attracted very little attention; it is surprising it did not attract more. It said something like this: Management owes employees an assurance that they will be taken care of in old age; that they will be taken care of when they are too old to work; and that they will have an income when they are no longer able to put in a day's work for the company.

It was not too many years ago when that would have been considered ridiculous. For in effect it says an employee need not set aside money for his old age; that he need not worry too much about the rainy day you and I have been told to look and prepare for; somebody is going to see to it that he is taken care of without his having to assume that responsibility personally.

Whether it be Government through social security, or whether it be private employers through private pension plans, we are now saying--and innumerable wage contracts were negotiated last year and are being negotiated this year--that management accepts the responsibility of looking after its workers throughout their natural life, whether they work or not.

That is a social development of the utmost importance. It is something that has not been said before. It is a trend which has been developing. It is upon us now flatly, unequivocally. It is here to stay, in my opinion. Management says not only that it will protect a fair rate of pay for its employees when they work, but it now says it assumes responsibility for what happens to them in their old age when they no longer can work. It may be a matter of only a short time when management says--and I do not think it will be too long a time either--"We accept responsibility for seeing that our employees have a reasonable assurance of work during the year," which immediately gets into the area of guaranteed annual wage and stabilized employment.

Then, too, management may say, "We assume responsibility for seeing to it if an employee becomes ill he loses no income because of circumstances which are beyond his control." The chain is endless as to what might develop in new concepts of labor-management relations as a result of the acceptance of that new idea. As I see it, there are really five things that management does owe to employees, ethically speaking. There are five things that management should assume as a responsibility and within its framework should try to give workers as much as possible.

The first thing is a fair pay--not necessarily good pay but fair pay. Are we sure that the rate we pay for this job is right; that the skill the job demands is rewarded sufficiently greater than a less skillful job requires, for which a lesser rate is paid? Are we sure that our rates compare favorably with the rates this employee could secure from comparable industries and comparable areas?

Second, security--the very thing we have just been talking about: security for old age. Security by the year, in the sense of how far we go to stabilize employment. Security by the day in the sense of what we do if the employee becomes ill.

Third, opportunity--there is an obligation to have fair systems of merit-rating and upgrading so that the employee has some assurance of the opportunity to advance. Whether he does advance or not I hope will always rest with the employee. But the opportunity to advance and the system by which merit may be recognized is a responsibility of management.

Finally, there are two things which are nonfinancial incentives but which are most important to an employee and which I think belong in this list of management's responsibilities to the workers. One of them is recognition--the desire of a man to be esteemed in the eyes of his fellow-men; the desire of a man to be recognized when he does a job well; to be identified as a human being and not known simply as a number or card in the pay roll account.

The other is participation--we have much to learn about that. By participation I mean the idea of an employee becoming a part of the management operation in some sense. We have done it better at McCormick and Company, I think, than most companies. Since 1932, under the multiple management plan developed by Charlie McCormick as president, we have given not only fair pay, security, opportunity, and recognition, but we have gone the final step and added participation to the list.

For example, our junior executives serve on a junior board of directors, a factory board, or a sales board. Our employees participate in monthly meetings of employees in Baltimore and in all our branch plants where they give us ideas and where we talk with them and communicate with them and share our confidences with them--a direct participation which supplements the suggestion system, and which gives every employee in the company a feeling of participating directly in business affairs.

So, those five things I consider management's responsibility to its workers.

As for the customer, the list can be almost a corollary. I think the first obligation management has to the customer by way of ethical

and moral values is one of fair value--not necessarily the best quality, not necessarily the lowest price, but the two in combination so that the product offered to the eventual consumer is a fair value.

I first planned to say that the two factors that should be given as an obligation of management to the customer were quality and price. Yet, in contrast, our competitive system brings us to the point where that may not be exactly what we are talking about. For instance, ethically speaking, is it wrong for a manufacturer to offer to a customer a product which is of poorer quality than the product offered by his competitor so long as the price accurately reflects that poorer quality? I do not think so.

Is it wrong, for example, for one great enterprise to offer an automobile, machined to the finest tolerances, "built with loving care," with almost hand-made precision--and priced accordingly!--and still at the same time offer another automobile which admittedly is not of the same high quality but which also offers a price that by comparison to the price of the first is so attractive that the second far out-sells the better quality car? Is that wrong? I do not think so. I cannot see where management should be criticized on ethical grounds because its quality may be less than top grade, provided the price for the quality he offers is right.

So, the point then is not "price" and it is not "quality." It is "fair value."

Uniformity, I think, is a responsibility of management to the customer. I think it is a very important one, too. I cannot conceive of anything much worse, ethically, than management failing to keep its product uniform, of a standard quality, so that its name put upon a piece of merchandise means exactly the same for every unit produced. If that means spending a great deal of money on quality control in the laboratories, if it means spending a great deal of time, effort, and money on the most minute inspection, I submit it is worth it. Management's responsibility to the customer is to make sure of absolute product uniformity. If there are three million units turned out in the course of a year, the two millionth should be identical in every respect in quality to the customer who buys it as Unit No. 4 or Unit No. 3,000,000. There should be no deviation or noticeable difference to the customer, and in fairness to the customer the brand name on a product should assure uniformity so that one unit is exactly as good as another.

Responsibility is another obligation of management to the customer. Responsibility implies that the management agrees to back up what it has said in its advertising; what it has said on its label; what it has said about its product which has induced the customer to buy it. If that responsibility does not exist, then I think management has failed in a most important moral obligation to the people who buy its goods. Wherever management will not assume the responsibility for backing up what it

sells, for assuring the people who buy its products that to do so is an assurance on their part that they will guarantee its value as advertised, then an ethical value has come into the question of relations between management and customers. This can be of the most serious consequence.

What keeps it from happening now? What keeps the fly-by-night from doing just that and taking an inordinate profit as a result? Well, the principal thing is competition. So long as any producer of a product knows he will be caught in the long run and his profits curbed because a competitor, sensing he is falling down on relations with his customers, will take advantage of that situation and step in to offer his product to the customers instead, we almost automatically have a brake on all these excesses which management might be tempted to do.

You and I may well say here, "There shouldn't have to be brakes. There shouldn't have to be economic curbs. There should be a desire on the part of all management executives simply to do good always." True, it is desirable; but let us not delude ourselves for one moment that it is very practical. The desire for the dollar is so all-pervading to many enterprisers that in the long run it is the economic curbs which will tend to bring our ethical values into line much more effectively than any other curb we can devise.

I think that a strong competitive system is essential to the protection of the customer, to the protection of fair value, and the protection of management's responsibility to the customer. I hope it will always be maintained. I see nothing wrong with it. I think in the long run it is more effective as a protector of the customers' interest than any kind of singularized, centralized control of an industry.

Now let us look at the final link in the chain. What is the moral or ethical obligation of management to the community? What is the interest of a business in the people who really are not directly involved in the business' operations? Here is a company which manufactures razor blades, let us say. Does that company's responsibility or obligation, ethically speaking, to the community in which it is located, begin and end with the men who use razor blades? Does the responsibility of a company which manufactures women's cosmetics begin and end with its obligation to the customers who use cosmetics and have no regard whatsoever for you and me because we do not use face creams, powders, or perfumes? I do not think so.

I think there is a subtle change which is taking place. Businesses are beginning to realize if they operate in a community they owe some kind of responsibility to all the people of that community. The community may be quite a small village, or a large city; or it may be a state. In our case, for example, we have determined at McCormick and Company that every member of our senior board of directors shall consider himself

so versed in the business that he is expected to take time for outside activity in addition to his daily job. He is expected to delegate a part of his task to a member of the junior board, or factory board, or sales board to do the leg work under him, so he will be free to serve as president of his luncheon group, or free to serve some public service activity, such as the Community Chest or the American Red Cross, or a government activity. We not only encourage it, we expect it. We censure that member of our board of directors who for some reason or other fails to carry out what we consider an obligation to the community.

In my case, I was chosen as the guinea pig to take it one step further-- to run for public office, as a City Councilman in the City of Baltimore, the reasoning being it is good for people to step out of business and get into civic activity. Isn't it a good thing for business to stop griping too much about government and get its good people into government to try to do something about it?

The experiment has been notably successful. I think it has extended to other businesses as well. I think it will extend still further. If businessmen generally will accept that feeling of responsibility to the community, of public service, you and I will see more good people in office, more good people in civic affairs.

And so, gentlemen, we have looked at the moral and ethical responsibilities of management. We have looked at the responsibility of management and its obligations, ethically and morally, to ownership, which is to make a profit; to employees (or workers) to provide fair pay, security, opportunity, recognition, and participation; to customers to provide fair value, responsibility, and uniformity; to the community to provide public service and unselfish interest; and, above all, the ethical responsibility of any management to serve the United States first and foremost.

Thank you.

QUESTION: There is no doubt your company has been most outstandingly successful in the utilization of this new concept. I wonder, sir, if you would tell us why it is that the steel companies, the automobile manufacturers, and so on, who are ever on the alert for new ideas, have not adopted this concept of yours?

MR. REID: Well, I would not quite go so far as to say that they have not. I actually believe they are on the way. That was one of the most encouraging things we could see during 1949. Let us look, for example, at the contracts that were made by the steel companies last year with the CIO Steelworkers, and with the UAW(CIO) and a motor company. Those were definite steps in this trend we are talking about this morning.

Now, I'll grant that union pressure had to be brought to bear. That is regrettable, to my mind. I am sorry management did not seize the initiative more than it did. But I'll grant this, once the bargaining talks proceeded to the point where it became evident that the union would be insistent on its points, I do give them credit for accepting an entirely new concept of responsibility to the workers.

I think the pension plans which have been written are excellent forerunners of a new kind of management thinking about trusteeship for employees. As I said, they go beyond the idea of, "Let's just pay a fair hourly rate and let it go at that." They actually say, "We owe something to these people who work for us."

So, you see, that is quite a step. They are making some progress. I believe, however, you will see a little slower development in the trend in some of the other corporations than you would, for example, in a company like ours. One of our great advantages, I might point out, is that we are so flexible. We sit down in our board of directors meetings, toss out some problems such as those which I have described today, decide we will proceed in such and such a way, then go ahead and do it.

I am very much encouraged by what I have seen in one motor company, for instance, in recent years in its efforts to attempt to stabilize employment during change-over periods before model changes. The auto-mobile industry has been a great hiring-and firing industry. Now, however, the managers are beginning to say, "We just realize we may have some responsibility to see that these people are kept on the jobs while we go about the job of drafting designs and plans for new models, and drawing up and making dies to produce them." One particular motor company has taken leadership in trying to minimize the effect of model change on layoff. They have worked out systems whereby employment has been stabilized much more than it was in the past.

All those good portents. I do think they are on the way. I only hope we will see more of that sort of thing.

COMMENT: I think it can be argued successfully that accepted personal responsibility is a character builder. I think most of us have had a chance to observe in the old home town the comparison between the one working man who was a solid member of the community and the other who was an irresponsible spendthrift--contributing nothing to the community.

I am wondering if an acceptance of trusteeship on the part of management would not in many cases be destructive of the character or moral fiber of the individual--and later on the community--and if the ideal isn't a cooperative trusteeship between management and the worker

himself in which there is a strong incentive for him to participate in this trusteeship, in which event management at least protects him against catastrophic results, even of his own bad judgment and particularly things beyond his control.

MR. REID: You are so right. You have touched on a very sore spot, and one that has me worried a great deal. I talk to literally hundreds of people who come to us for jobs, principally in the executive, junior executive or sales groups so far as my own interviewing of them is concerned, and I have noticed a disturbing trend in recent years, in talking with those people, which gives me the impression that the current crop of job seekers is more interested in security than anything else. They want to be taken care of from the cradle to the grave. They want somebody to assure them, "and if I go to work for you, you'll look after me from now on. I won't have to worry about the future."

I do not like that. I sense you do not, either. I do not like the complete dependence of an individual on either the Government or his employer to look after him. I would agree with you fully that the approach to be desired would be one of cooperation and one of acceptance of trusteeship on the part of the employer and the employee so that we never reach the stage of seeing employers becoming paternalistic. There is nothing I deplore more than a paternalistic management; one which hands out largess on a silver platter. That is one of the worst things I can think of. In our own case, we find that terribly difficult.

I am required by our board of directors, as the person responsible for our dealings with people, to submit productivity and earnings charts regularly so that I can prove, not just by my own opinion but by facts and figures, that everything we do for our employees comes back to us in the form of greater interest, higher morale, and consequently in reduced waste and higher productivity. So far, those lines have never met in our company. In spite of the fact that we have given wage increases—the one we gave to our employees in March was the sixth one since VJ-day—put in pension plans, and many other very expensive profit-sharing arrangements, the productivity line has always stayed right along with the earnings line. They are still about the same distance apart on my charts as they were when we started. Sooner or later it will reach a point where the employees will no longer proportionately produce in return in appreciation for these things that are being done; we will hit that point of diminishing returns which the economists all talk about, where productivity will turn down while earnings continue to go up. It is near that point we will take further positive steps to see that it does not happen. We can only hope that every management will apply the same realistic precautions to their ideas of this great responsibility to employees.

I am saying this only to indicate that I think you are entirely right; one of the worst things that could happen to us would be for the individual fiber to break down and for there to be complete dependence on some employer or for the Government to look after us. I hope it never happens.

COMMENT: It would seem to me that this assumption by management of security for the employee indefinitely would ultimately lead to a very high degree of government control, if not ownership of industry.

My reasoning is that a large number of businesses fail every year. They are not in a position then to carry out that responsibility. If they have been making investments each year in a trust fund of some kind, that has to be invested somewhere. Of course, they might fail. The revenue might lose a lot of its value through inflation or in other ways. In each of these cases there would be pressure brought to bear for the Government to underwrite it in some way. In doing so, the Government naturally wants to have something to say about the handling of a business so that the Government would not fail. So, you see, there is an inevitable chain of events.

MR. REID: You made a vicious circle that sounds very unpleasant, indeed. It could happen.

I would say, first of all, that you have touched on a very controversial problem with businessmen today. Management executives are confused on this subject: Now, look; what have we got hold of? Have we got a bear by the tail we wish we could let go of?

It is a real problem. I think that many of them are finding themselves in a position of paradox at the moment. They have said, in effect, in letting their pension plan contracts, "We accept responsibility as the employer to see that our employees are protected in their old age." By tying them to Federal social security benefits so that their company payments become smaller as Federal payments increase they have put themselves on record as endorsing the very thing that businessmen have said for years and years they did not like.

So, they are in the conflicting position of economically seeking something they have philosophically always opposed. I do not know just exactly how it is going to be finally resolved. I frankly do think we are going to see a lot of them try to scramble back from that position. I think the discussions which will take place on the Hill this spring with reference to the extension of social security benefits are going to find a lot of businessmen very confused when they attempt to put their discussion on record as to exactly what they believe in and what they want. It is only the start of quite a problem in that direction.

However, generally speaking, I will state only my personal belief and the belief of our company; to do otherwise would be an attempt to speak for all business, when I cannot possibly do so. Personally, I believe this: That the people have decided they want certain welfare benefits and certain security rights. The people are so powerful that they will secure those benefits, if they want them badly enough--and I think they do want them badly enough--eventually from somebody, either from government or from employers. Therefore, we are faced with a tendency in the United States toward a welfare state, which is already evidenced in many other nations of the world, where the people have gone through the same cycle of saying, "We want certain things. We will vote in the government that promises to give them to us."

My contention is that business and management would be well advised to sense this feeling on the part of the people; to sense this idea that is in the minds of many, many human beings that they want these things and want them badly enough to say they will get them eventually somehow. Therefore, sensing them, management would be well advised to meet those demands as much as it possibly can while still making a profit.

Now, your point about businesses failing, I think, is answered by my first premise, that the first obligation of management is to make a profit. If it does all these other good things we are talking about and fails to make a profit, it has failed in everything; I don't care how good they are, or how highly spiritual they are. If they fail to make a profit, they fail miserably in everything.

In other words, it is possible, as I see it, if enough employers accept this concept, to forestall the coming of the welfare state in America by replacing it with welfare capitalism; developing the idea of capitalism, the idea that people want certain things and they are going to get them from somebody, anyway, so why shouldn't management do it and get the credit for it.

That is my own personal thesis. It is our company's thesis. It is practical, I'll grant you, only if enough management executives adopt it to make it an aggregate solution to a problem.

QUESTION: Sir, wouldn't your ethical plans enjoy a more widespread application if the labor unions and labor union leaders were made responsible and restrained to the same degree private enterprise and management are?

MR. REID: I think so. I testified recently before the Senate Judiciary Committee on the proposed Robertson Bill which would apply the antitrust provisions to labor unions in the same sense it applies them to business corporations. My statement on that occasion was much to the effect of the one you have just made, that I believe the same curbs should be applied to monopolistic labor union practices as have been applied to monopolistic business practices.

QUESTION: When management signs a contract with a union, does that mean management's rights are lessening?

MR. REID: We have pet phrases in our labor negotiations known as management prerogative clauses. You are right! They are dwindling away. They started out big, but they are now getting a little smaller.

I do not know if there is much that can be done about it. Unfortunately, whether management likes it or not, the whole question of relationships with unions always puts management in a defensive position. We are not the aggressors in collective bargaining; we are the defenders. The union backs us into a corner and we get out as best we can.

Now, that is too bad. I do not like it, but I do not know much that we can do about it because contracts are traditionally written that the unions present their demands first; after that, management submits its counterproposals. We begin negotiating from that point. So, automatically with the press and with the public, management is put on the defensive from the time that the union's demands are first presented because all the contracts say, "We cannot do this because * * *."

However, I think the best protection in the sort of thing you are talking about is for someone at the bargaining table to be ever so conscious of protecting management's prerogatives that he fights to the last ditch for them. He might even sacrifice something of a financial nature, where necessary, in order to win on the premise of retaining management's prerogatives.

I think the point you make is one that ought to be blazened before every management group before it heads for the bargaining table: "Management Prerogatives--Protect Them for Your Own Good and for the Good of the Whole Nation in the Years to Come!"

COLONEL MCKENZIE: Mr. Reid, you told us that the primary responsibility of management--and perhaps we ought to put you out on the road selling the idea to labor--is to the country as a whole rather than a particular small group for the particular advantages they are likely to gain in any one current year.

Would you comment on that, please?

MR. REID: I certainly agree with you. When I say that a management man owes his first responsibility to the United States of America as a nation, I imply that every individual of the United States owes the same obligation. That would include every worker, union or non-union. It would also include every union leader. As union leaders achieve increasing importance and greater influence--as they certainly will--I think the question you raise of trying to educate them as to their responsibility and obligation to the Nation as a whole is increasingly important.

COMMENT: My question, Mr. Reid, has to do, I guess, with the responsibility of management to the community; more specifically, the responsibility of management to the English language, more or less, in connection with advertising--not so much the honesty of advertising. But I was just wondering if you would comment on the fact that perhaps the use of superlatives and slogans has so diluted and dulled our language that it is no longer a good medium or vehicle for the transferring of ideas to the general public that it used to be.

MR. REID: I would agree to this, certainly: What is called for is more cleverness and more ingenuity in advertising; more new developments; more adaptations of ideas of advertising to new thinking and new processes. Sooner or later, unless we achieve it, we will reach a point where we have simply shouted the ultimate until there is no ultimate above it. For example, we have said we are so good and such an outstanding company that there isn't any more we can say.

The copy writers in the next ten years are going to be hard put to think up some other superlatives. Hollywood used to advertise something as being stupendous. Now, "stupendous" is just average; "terrific" and "colossal" are now slightly above it.

Ingenuity and cleverness, I think, would supply the only answer to the problem. I think we are well aware of the question. We have come to the point where we rather ridicule our own advertising agency and our own advertising department when they come up to us time after time with ideas which obviously are just shoutings of superlatives. We have sent them back to their drafting tables and their typewriters with instructions, "Can't you get something with a little different twist to it? Try to find something ingenious and clever instead of simply repeating what has been said before." I don't know. Maybe it will work; maybe it won't.

QUESTION: We have also heard from this platform that when management sits down at the conference table with labor unions the battle is already lost; that it is just a question as to how much management has to give up to the unions because of the strength which the unions have built up for themselves through what they have gotten for labor.

MR. REID: In the first place, I do not accept the thesis at all that management is put completely on the defensive because of the union's power. I just cannot believe that this is true. Any management which yields completely is doing a disservice not only to its own immediate business but to other businesses as well.

I think ways and means can be found to keep management and union leaders in contact with each other during the course of the year. My principal recommendation along the line of your question would be that

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management-labor relationships should be on a closer day-by-day basis instead of a year-by-year bargaining-table basis. Today we often make the mistake of being two-armed camps within the four walls of a business, coming together in mortal conflict once a year at the bargaining table. We have not tried to understand each other or tried to cooperate with each other during all the time that was in between.

I think it is entirely possible for management, if it works at it, to get to know its union and its union leaders. If they will keep in sufficiently close contact during the year, many of the problems will be virtually solved and an understanding will be reached whenever they sit down at the table to talk about contracts. I think that actually happens in literally hundreds of businesses throughout the United States all the time. The trouble is that those are the unpublicized incidents of good labor-management relations. The ones that are explosive, the ones that are bad, the ones that are once-a-year occurrences are the ones about which you read headlines.

QUESTION: I got part of my answer in your last statement, Mr. Reid; however, I would like to carry it further, if I may, into the field of the larger corporations.

It has been said many times that direct collective bargaining does not occur; that the "battle" which takes place is a political one between unions and management--those who control the job and those who control the people who do the job.

MR. REID: Well, first of all, I think you have touched on a very real problem. As unions grow in size, as union leaders increase in power and influence, as businesses grow in size, and as the size of the bargaining unit grows, where we go into area-wide and industry-wide bargaining, the factors discussed at the bargaining table become more and more political; they become more questions of influence and prestige than factors of relationship to workers.

We have a plant in San Francisco employing several hundred people; conditions there are very much like a cork tossing on the ocean. There isn't a thing we can do about it except sit down and take our dose. But all the conferences that are going on in that jurisdictional struggle have nothing whatsoever to do with our employees or their welfare, or their benefits. That, to me, is most unfortunate. I regret it considerably.

I think the recent coal discussions definitely indicated something of that sort. I believe you will see the struggle in the Chrysler and the forthcoming General Motors negotiation influenced to a tremendous extent by the desire of the UAW (CIO) officials to get as much for their workers as John L. Lewis got for the coal workers. So it becomes a

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political battle and a prestige battle instead of an honest one based on the principle of collective bargaining. That is too bad.

In San Francisco we have voluntarily put in for our workers a pension plan and a profit-sharing arrangement. We told the union before we did it that we were going to do it. We told the employers' association with which we work that we were going to do it. But the important thing is that we did not wait for their demands to force us to do it. Our employees now know where it came from. Eventually, we would have done it, any way. We have taken the initiative, and we have done it early, with the complete advice and knowledge of both the union and the employers' association.

One solution is to keep the bargaining unit small. I certainly hope whatever legislation is required to keep industry-wide and area-wide bargaining to a minimum will be passed by Congress.

Our solution to the problem which you have brought up is to keep the bargaining unit small and flexible.

QUESTION: The small businessman in this country, trying to get started, cannot go very far if he does not have some competitive advantage, like copyrights or patents, or some monopolistic advantage with which he can compete with large business.

Would you give me your opinion as to whether it is possible in this country for a small businessman to get started without the benefit of these advantages, and, at the same time, be able to adopt these ethical standards?

MR. REID: I definitely think so. I think I would be throwing cold water on a lot of businessmen if I said that it is not possible for a small businessman to be ethical and at the same time profitable, because over a period of time it does tend to pay.

I think the best example I can give you is one that I recall when I taught a class in business management, in Baltimore. I had been discussing business ethics in class one day and happened to raise a point. (This may be an old story to some of you, but it was new to me at the time.) I asked if anyone in class had an example to give from his own experience. Most of them were GI's who had gone into some form of business through their GI loan. One fellow who had an electrical appliance store told this story.

A man came into the store, bought a radio set, and gave him a hundred dollar bill to pay for it. After the man had left, he looked at the bill and realized he had been given two one hundred dollar bills stuck together instead of just one. I told him I thought he had given a pretty good example of what we had been discussing in class. Then he said, "Yes; it's a real problem: Should I tell my partner, or shouldn't I?"

I kind of followed his career with a little interest after that. I dropped by his place and noticed a "For Rent" sign in the window not too long afterwards. I cannot help but believe that the small businessman who thinks he is outsmarting his competitors by sharp dealings and unfairness to customers in the long run outsmarts nobody but himself.

It is not so much a question of whether he is ethical or whether he is not ethical as it is a question of his management ability and his efficiency as to whether he succeeds or fails. I believe that the man who chooses to be unethical and at the same time has sufficient sharpness and efficiency and management ability to continue to stay in business will find that his lack of ethics will catch up with him over a period of time. But he may forestall the evil day for literally years because of his own ability.

On the other hand, I am quite sure that a man with equal ability and equal efficiency, operating his business, competing with others, by ethical methods will win community respect and customer respect which over a period of years will bring him greater success than his sharp-dealing competitor. That, we have to believe in. If we cannot accept that, then the whole moral core of United States business operation is in very sad jeopardy.

COLONEL MCKENZIE: Mr. Reid, I am thoroughly convinced we were correct in selecting this subject for our discussion this morning. I am ready to pass on your nomination for professor of the chair of management ethics in the Industrial College of the Armed Forces.

Thank you very much.

(29 May 1950--350)S