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ETHICS IN MANAGEMENT

6 October 1950

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Mr. Thomas R. Reid was born in Monticello, Arkansas, 20 April 1914. He is Vice-President, in charge of Human Relations and member of the Senior Board of Directors, of McCormick & Company, Inc., Baltimore, Maryland. True to McCormick and Company's policy that their executives participate in community affairs, 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 and Finance Committee for the City of Baltimore. He is also chairman, Employee Relations Committee, Grocery Manufacturers of America; instructor in Business Management, University of Baltimore; instructor in Human Relations, Baltimore Institute; member of the Labor Relations Committee, Chamber of Commerce of the United States; on the Board of Advisers, North Baltimore YMCA; and member of the Personnel Advisory Council, National Industrial Conference Board. He received his B.S. degree in Business Administration from the University of Arkansas, 1935. For his work as organizer and first chairman of the Personnel Policy Board, Department of Defense, Washington, in which capacity he was responsible for establishing both military and civilian personnel policies for over two million people, he was awarded a Certificate of Appreciation and the Exceptional Civilian Service Medal by Secretary Louis Johnson on 1 September 1949. He has served as a member of the United States delegation representing employers, appointed by President Truman, to the International Labor Conferences at Montreal, Canada, 1946; Geneva, Switzerland, 1947; and San Francisco, California, 1948. In 1947, he was a member of the U. S. Delegation to the International Management Congress, Stockholm, Sweden. He was formerly executive vice-president, National Society for Advancement of management; executive vice-president, U. S. Junior Chamber of Commerce, Chicago and assistant to Industry Members, National War Labor Board, Washington, D. C. The U. S. Junior Chamber of Commerce selected him as one of America's outstanding young men of 1947.

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ETHICS IN MANAGEMENT

6 October 1950

COLONEL BARNES: Gentlemen, in your Orientation course in Organization and Management you studied briefly the fundamental principles and concepts of business and government administration. You have doubtless asked yourself these questions: How does a progressive business concern today apply these principles? What are the concepts and policies of management as regards its relations to employees, owners, customers, and community? Is there such a thing as ethics in management?

Our lecturer this morning is particularly qualified to bring you the answers to these questions. He has an outstanding record of progressive leadership in the human relationship side of management. He has participated in many national and international conferences where management-labor policies have been debated. He also served as the first chairman of our own Department of Defense Personnel Policy Board, with such conspicuous success that he was awarded the national Medal for Exceptional Civilian Service. Still other distinguished achievements are listed in his biographical sketch, which has been furnished you.

In fact, it is difficult to see where Mr. Reid finds time, with all these extracurricular activities, to function in his main job—Vice-President, in charge of Human Relations and member of the Senior Board of Directors, of McCormick and Company, Inc., Baltimore.

It is a great pleasure to welcome back to our college platform, Mr. Thomas R. Reid. Mr. Reid.

MR. REID: Thank you, Colonel. Good morning, gentlemen.

This is a return visit for me, and a very pleasant one. I have looked forward to it because I have discovered several things about this group. There are personnel changes, the faces are different, but the atmosphere that exists and the feeling a speaker has as he stands on this rostrum are always the same.

For one thing, I like the fact that you don't have to be entertained. This is your job, this is part of your assignment, you are serious students of management, and we don't have to bother to tell you jokes and keep you amused in the course of disseminating the sugar-coated pill of education.

Second, I like the fact that all of you have had experience and are thoroughly qualified not only to grasp and understand whatever one may have to say to you, but also to raise very pertinent and very pointed

questions. I don't hesitate to tell you that, from the questions that came up after the presentation, I learned more than I taught in this room; I fully hope that we will have the same experience today. If you will prepare your questions as we speak, I would like to devote the major part of the discussion to questions and answers rather than a presentation.

We are talking about "Ethics in Management" today. I cannot help but believe that there are all too many people, perhaps including some of you, who look a little skeptically at the subject of ethics in management and raise an eyebrow, because the general impression seems to be that management just is not very ethical so long as it has to be concerned about making a profit. If it makes a little more money to be a little less ethical, I am afraid there is a common impression abroad in the land that management would not hesitate to abandon a few scruples in order to make a few extra dollars.

I don't say that this is necessarily untrue. Unfortunately, there are "managements and managements," just as there are "men and men," and not all are honest, not all are broad minded, and not all are completely ethical. I do believe that, generally speaking, it is the intent of management to operate in an ethical manner. I do believe that it is the intent of most managements to serve those it must serve as capably as it possibly can.

Is that goodness for goodness' sake? Partially so--because many men still are good, honest, and kind. But it is goodness for another reason--strangely enough, we have discovered over the years that goodness generally pays off. We have found that, sooner or later, management which tries to abandon its ethics and gets away with it is caught up in the public opinion that determines the success or failure of any enterprise, and it subsequently suffers. We have learned, also, that the management, which bears its ethics in mind, plans its operations accordingly, and determines its policies accordingly, generally winds up with that intangible factor of public good will or public favor which enhances its business volume, creates new customers, keeps old customers, and leads to greater profits as a result.

Whether we are good for goodness' sake or whether we are good for the practical reason of making more money seems to me to be relatively immaterial. The point is that, if we can find a way to make all managements as ethical as most managements are, we will have done a great service for the people of the United States.

I believe, first of all, that one of our difficulties in management is not so much lacking the intent to be ethical as it is to find ways and means to be ethical. In order to grasp our problem of what we should do,

we must do some broad-scale thinking that some managers are just not equipped to do. If they could go to school as you do, if they could study some of these things--if only they knew how to proceed--I think they would honestly like to do something about it.

Here are a few suggestions. They are not mine necessarily. Not all of them are original. They have been cribbed from endless conferences with businessmen throughout the United States, from readings and conversations, so that I think they represent a fairly good cross section of management opinion.

If, then, we can assume at the outset that management genuinely would like to be ethical, whether it be for reasons of goodness or reasons of greater profit, how would a management proceed to become an ethical business? I would think that the first thing it should do would be to analyze its problem. Ethical to whom? That is the number-one question a management should ask itself. And in order to answer that, we have to look at all the aspects of business operations.

I like to set them down in a chain. Let us call it the "chain of business reaction." The chain has five links in it. The old maxim that a chain is only as strong as its weakest link has never been more true than it is in the case of this chain of business reaction.

Let us put down as the first link in the chain, "ownership." That may be an individual proprietor who opens a little grocery store on the corner with his own money. It may be a giant corporation that sells stock and uses the money of many thousands of people to open its enterprise with a capital backing. Or it may be a group of people who have banded together in a partnership and have pooled their funds to provide capital for an enterprise.

With this framework before us, we see that ownership may take one of several forms; but the first point of any business is ownership. There is no business under a free economy until there is an entrepreneur, an enterpriser; until someone is willing to risk his money and time on an idea for a business enterprise.

Many times the entrepreneur, or enterpriser, or owner, of a business is also the manager. In some instances, in the very smallest of businesses, he may also be "all the employees" as well. In other instances, as businesses require more complicated processes, it is customary for ownership to hire what it calls "management."

"Management," then, becomes the second link in our chain of business reaction. It joins into the link of ownership, because the two are very closely related. And management becomes the operating, active, policy-making head of the business enterprise. Management may include many people. In the cases of great corporations, it could include thousands and thousands of people.

The next link attached to management is "employees," or "workers." Management cannot do all the jobs itself. Neither can ownership. As the business grows and develops, it is necessary that people be employed and paid wages to do the tasks of the business.

We have now a chain of three links: ownership, management, and employees. That is the common concept of what business is. Within the last decade many of us in business have discovered that this is not a complete chain. Many of us have come to the realization that there is no such thing in modern times and in modern business practice as considering a business successful if it goes no further than those three links in the chain.

You will notice that, so far, everything is inside. Ownership, management, employees--all are definitely a part of the inside operations of the enterprise. No business lives in a vacuum. We cannot isolate ourselves in the business community any more than the United States, or any other nation, can isolate itself in the modern world, with communication and transportation systems as nearly perfect as they are. Since no business therefore can live in a vacuum, it lives within a framework of other environments.

So I would add to that chain of business reaction, a fourth link, which we would call "customers." These are people outside the business. They buy the products or the services that we supply. They are vital to the business because without their patronage there is no wage for the employee, there is no salary for management, there is no profit for ownership. Customers are pretty important.

Many businesses would, again, stop there and say, "That's the chain. What more can there be?" I would add a fifth link to the chain of business reaction and call it "community," because customers are part of a community, employees are part of a community, management is part of a community, and ownership, whether it be part of that community or in some other area, at least has a kind of responsibility to the community in which its enterprise is located.

That completes, in my opinion, the chain of business reaction, except for one very notable omission, which you probably already have noticed. I purposely left it outside the chain because I think it is so important that it is much more than just one link. That, of course, is government.

Business is surrounded by government. Everything is surrounded by government. That is not necessarily bad. Without it we would have people running riot. Without it we would have everything that we dislike to see. An excess of it makes us very unhappy, but if we took away the minimum protection of government, we would be not only unhappy but literally destroyed.

So government becomes much more than a link in the chain of business reaction. I would put it entirely around the chain—let us say, a map of the United States drawn around the five links of the chain. And that map of the United States symbolizes something of which I know you wish business would get more. From my eight months in the Pentagon last year, I know that the Defense Department would like to see business accept to a greater extent that symbolism of the map of the United States around the chain of business reaction. That, in effect, means there is nothing more important than the United States of America, whether it be to an individual citizen or whether it be to any business enterprise. The United States must and always has come first.

If management on a large scale refused to accept that, then your job as defenders in uniform of the United States would be a very difficult job indeed. You need what business enterprise supplies in the way of all the goods and services required to fight a war and defend a country. If business is not taught to accept that responsibility, just as you are taught to accept your responsibility as officers of the armed services, then this country will be in a very dangerous position.

I cannot imagine anything much worse than the statement credited to the coal miners of Britain some years ago, wherein they said, nationally: "If there be war with Russia, we will not take up arms for our country against a Russian enemy. We will not produce coal. We will not do anything that will be injurious to Russia." That, to me, is an unheard-of thing. It is one that would make untenable the position of any country, which must feel that it can depend on its business enterprises and its workers in any emergency to drop whatever other considerations they have and put their country first.

We have, then, this picture of the chain of business reaction with a map of the United States drawn around it, and that is the picture a businessman must see if he honestly expects to develop an ethical concept of management. If he leaves out any part of that, he is going to find that he is not going to do his job completely. If, for example, he draws the usual chain of business reaction that most managements had in their minds many years ago, before modern times taught us otherwise, he will say, "I have only one responsibility as a manager of a business, and that is to make a profit for my owners." That is the old concept that profit is the sole reason for business existence.

Let me emphasize that I am not minimizing the importance of profit even today. I am simply saying that, after the responsibility of making a profit, there are other management responsibilities as well.

Let no one ever tell you that management should get so engrossed in its responsibilities and its ethical concepts that it would overlook the basic, fundamental fact of free enterprise that the first responsibility

of management is to earn a profit. If there are no profits, there are no jobs. If there are no jobs, there are no customers. If there are no customers, there is no business and there is no nation. So the first responsibility remains that of earning a profit.

What we must discover is that, in addition to that responsibility, there are others. There are responsibilities to employees not only to pay a good wage but to assume responsibilities for certain welfare considerations, there are responsibilities to customers, there are responsibilities to the community, and there are responsibilities to the United States of America that management must be just as conscious of and just as vigorous in executing as it is in carrying out its responsibility to ownership to earn a profit.

That is the picture a business should see. But suppose a management looked at the picture and then said, "I am still stumped. What do I do? How do I go about setting up a framework in which to become ethical, to carry out my responsibilities to these different units?"

That raises the question of policy, because it is policy that makes all this possible. I just cannot believe that any management, no matter how small or large the enterprise may be, can honestly carry out its burden of responsibility to all the people it owes an obligation unless it has a framework of policy--unless somebody in management has sat down and said to himself, "What does our business believe? What is our intent?"

That is not easy. I know many a top management executive who will admit under questioning that this is just about the hardest thing he has to do.

Some years ago I talked to General Robert Wood Johnson, President of Johnson & Johnson in New Brunswick, New Jersey, and he told me a story that has always amused me, although he was rather rueful about it. One of his executives came to him one Friday afternoon and said, "Look, we have all decided in one of our management committee meetings that it would be a good idea if we set down what Johnson & Johnson believes about its dealings with people. What do we think about the people who work for us and what is our intent toward them?" He said, "We are a bit stumped, and we thought we would come to you as the head of the business to see if you could help us." General Johnson, in telling the story, said, "Well, that's easy. I have been in the business many, many years, I have grown up in it, I am the president of the business, and it will be a fairly simple matter. You will have it Monday morning. I will work on it over the week end."

So he went home, sat down at his desk that night, and, free from interruptions, proceeded to try to think out, "What does our company believe about people? What is our intent?" He discovered it was not so

easy as he thought it was. He spend the whole next two days on it and when he came in Monday morning, he called in the gentleman who had seen him and said, "Look, I just don't know. But let's get to work on it because we've got to find out. And if it takes all the brains in this business in constant conference to develop it, let's do it."

The job became one that was so intense and one that fascinated the executives so much that they finally decided they would call into conference other business leaders, and there was set up one of the most interesting conferences that it has ever been my pleasure to attend, a series of meetings to write a concept of business ethics.

We began with General Johnson and a few other businessmen, whose names you would know. We added representatives of the CIO and the AFL. The top social and welfare leaders and thinkers of the Catholic Church became interested and asked to be allowed to participate. The Protestant and Jewish churches joined in. Soon we had a full-scale cross-section group working on this job. One of our meetings was held in the Stork Club in New York City, and I am quite sure that Sherman Billingsley had his greatest shock when he saw the group of rabbis and catholic priests going through the Stork Club on their way to the private room upstairs where the meeting was held.

The upshot of that conference was a very fine little volume setting down in writing what management believed about people.

There were squabbles and bitter frictions along the way. I remember that I left them at one stage of the discussion, saying I simply could not agree with the concept that there is no such thing as being fair to employees without an organized labor union. The labor union leaders and the representatives of the churches insisted that this concept be put in. I could not accept the concept that a labor union is absolutely essential to the protection of the welfare of a worker. There were others who left for that reason or others, so we had a difficult time trying to reach agreement on what could be said. But it was an interesting experiment, and it demonstrates how difficult the job is of trying to pin down the question of management ethics.

This is what I would propose for a manager of an enterprise who honestly wants to do this job, who looks ahead at this picture we have drawn of the chain of business reaction with the United States around it, and who says, "I would like to try to meet that obligation."

I think the first thing he might do is to think in terms of policy, just as we thought in those meetings, and try to set down, "What does our business believe? What is our intent?"

The first step, obviously, would be study and research. It is not a matter of simply executing at once. Study and research should precede the next step.

The next step is policy determination. Following policy determination, a third step I consider essential is reduction to writing. I use the term "reduction to writing" advisedly. Nobody has ever put something down in writing without reducing it—without reducing the fat off it, getting all the excess out of it, looking at it in cold black and white, and saying, "That just does not say exactly what we mean it to say. Therefore, let's revise it and improve it."

After reduction to writing comes communication. A policy is worthless until it has been communicated to all down the line who need to know it, who need to understand it, and who must have it interpreted. After communication, and only after communication, comes execution and follow-up.

Those are the steps in establishing a policy. If those steps are followed carefully, a business can put itself on an ethical plane that will carry out its every intent. It takes a lot of thinking and planning, but it can be done.

Now let us take, for a couple of minutes, an example of how a policy might be studied, prepared, and communicated on, say, the responsibility of management to employees—the first link in our chain after the management link. A management might say to himself after some study and research, "What is it that our employees want from us as management? What are the things that, by the very forces of human nature, make them desire certain fundamental things from their jobs?" If that seems a strange approach, I can only say that we do it in every other phase of business. Why shouldn't we do it with people? If we plan to construct a building, we study in minute detail what specifications we want. What is the function? What is the objective? And we plan, with our blueprints and architect's drawings, every step of the construction—every partition, roof, and type of material—to meet the objective. Isn't the procedure the same in the subject of responsibility to employees? Try to determine what the fundamental human nature aspects of people are and then, if we can, try to meet them in business with the policy we would write.

I have boiled it down to six things that people want from their jobs because of the nature of human beings. Maybe there are more. Maybe it is oversimplified. But those six include most of them.

I think, first of all, people want from their jobs interesting work. There is nothing much worse than being bored. If we can find our work exciting, interesting, or a challenge, even the most repetitive task can be an adventure every day. I think a man has reached the stage where his work is

no longer interesting to him when, day after day, he wakes up in the morning with the attitude, "I've got to go to work today and I don't like it." If he can wake up with the attitude, "I wonder what's going to happen when I get there today--it might be something new, it might be something different," that man has found an interest in his job.

It is the nature of our modern mass production techniques to have fairly monotonous and repetitive tasks in many things. We are getting to be specialists and detailists in so many things that many things we do must necessarily be uninteresting in themselves. What can we do about that? Perhaps we can make the workplace more interesting, perhaps we can work out extracurricular activities, perhaps we can provide something that will stimulate the employee in ways other than by the nature of the job itself. But it is management's responsibility, in my opinion, to see to it that the work is interesting.

Number two is fair pay. I fully realize that many polls taken of factory workers today come up with the conclusion that money is not important any more, that nobody cares about the weekly pay; all they want are pensions, and so on. I have yet to accept that. It still seems to me that a man's basic weekly pay is just about as important to him as anything else in the job, if for nothing else than as a measure of his success.

That is why I put it down as "fair pay" instead of "good pay." The question of differentials, for example, enters into it. If a man feels that another worker with the same skill and with the same hazards and responsibilities is earning more than he is, that man is going to be a disgruntled employee, because he immediately feels, "I am discriminated against." I don't care if he is making enough money to support his family in luxury; his feeling still will be one of, "It isn't enough. I see somebody who is doing the same thing and with the same skills getting more."

So money becomes a measure of accomplishment in many respects. I think the industry that overlooks the question of careful job classification, evaluation, and analysis, and a real consideration of differentials between skills, hazards, abilities, and responsibilities, is making one of its biggest mistakes in meeting the needs of human nature.

After fair pay I would put security. Government is a specialist in security. Your security story is better than anything industry has devised yet. Industry now is trying to catch up. We have gone into pension plans, we have gone into sick benefit programs, we have gone into some types of employment stabilization to cut down the possibility of being laid off in the middle of a year; so that we are gradually approaching the ideal in the employee's mind that he feels very strongly about.

"I want to be comfortable and secure. I don't want to have to worry about whether I have an income or not."

Security really takes three phases: Security by the week--if I am ill, will I be paid? Security by the year--if work lets up, will I be laid off, will I be put out of a job, what are my chances to have stable employment throughout the year? And security for life--when I am too old to work, what will happen to me; is there a plan to give me subsistence, or will I be cast aside like an old shoe?

After security, and logically joined with it, comes opportunity. I was most interested to read, the other day, a very short, one-sentence statement attributed to General MacArthur. It caught my eye and appealed to me a great deal. He said just this; "There is no such thing as security on this earth; there is only opportunity." I thought of the British people as I read that, because they have sort of traded opportunity for security. I thought of a great number of people living under socialistic and communistic governments who have said, in effect, "Here; you take my money, Mr. Government, and spend it for something you think I'd like to have. You know what to do with it better than I do." For security, for the feeling of an umbrella over the head, for protection against any rainy day, they have traded away much of the freedom, opportunity, and individual initiative we treasure in the United States.

So I still think that opportunity is a big factor in the minds of employees, particularly the younger ones. I know, when I talk to our young ladies who pack pepper off the ends of the lines in our spice plants and tell them about the glories of the pension plan and the wonders of how much money they will get after they are 65 years of age, they look at me out of those big blue eyes and say, in effect, "Who, me? Sixty-five?" And I can understand their natural feeling that, "Security is something that just doesn't enter my mind at this point. I'm going to marry the boy next door, and all I am interested in is opportunity."

If that is a big factor, we can do a lot about it. We can do such things as merit rating, for example, to make sure that merit is recognized. Business has a long way to go to catch up with what you have done in the armed services in that regard. We can do many things in respect to honest promotions that still need to be done.

After opportunity I would put one that does not cost very much. Let us call it recognition. There are two types of recognition. One is praise for a job well done, to supplement criticism for a job poorly done--both are essential. The other type is one that needs to be recognized even more, and that is recognition as an individual human being. I don't know of anything that a serviceman resents more than being known as a number on a dog tag. I don't know of anything that an employee resents more than being known as a number on a pay roll.

People like to be thought of as individual human beings. They want to be recognized by their immediate supervisors by name and with some understanding of their family problems, where they live, how they live, and what they are interested in. It is a natural human desire, and the business that develops it and capitalizes on it is likely to find that it has done a most invaluable thing for its good relations with employees.

Finally, there is participation. Participation and recognition are not exactly the same. It is one thing to recognize somebody; it is another thing to give him a chance to take part in what you are doing. We in business have overlooked that one considerably. We have said to ourselves, "So long as we pay our people all right and so long as we give them a job, provide them minimum security, and certain opportunity, and things are generally fair, haven't we done enough?" I don't think so. I don't think we have done enough until we find a way to utilize the ideas and abilities of all the people we have for the good of the business and for their own good and their own training.

At McCormick & Company, since 1932, we have done it through a system we call "multiple management." It embodies two big principles. One is that every employee of our business sits in at a monthly meeting of employees presided over by the chairman of our Factory Board of Directors. They hear what the company is doing and are kept posted, through our verbal communication system, on any new developments in company activities. At the end of the meeting they tell us what is on their minds. On controversial subjects we break the group down into small units of 50 to 100 people and invite their discussion, comment, and questioning. So we have true communication as defined by Webster, "the interchange of thoughts and opinions," rather than the simple communication of thoughts and opinions without right of interchange.

The second phase is one that takes into account people like you in our business, people whom we have tapped for leadership positions, men in junior executive capacities or assistant department head categories whom we expect someday to be leaders of the business. Those we serve in this way: We ask them to take part on a junior board, a factory board, or a sales board, all operating under the stockholder-elected Senior Board of Directors of our company. They participate in the sense that, at their board tables, under the guidance of their chairman and secretary and under the operations of their own bylaws prepared by themselves, they discuss anything in the business that interests them and send recommendations up to top management for final approval. They may invite any of us to come down and meet with them and answer questions, but we may not attend their meetings except by invitation.

They have rolled out literally thousands of ideas for the good of our business, and a most valuable by-product has been executive development.

They have learned to manage in the best way that one can learn to manage, and that is by managing.

They receive a director's fee as members of those boards. With other employees, they share in the profits of our company, which is the ultimate in participation. If people help to earn profits, it is our belief that they should participate in the profits that their productive efforts have made.

These, then, are fairly representative examples of what a business may do ethically to meet its obligation to employees. Those policies have been studied and researched, they have been determined, they have been reduced to writing, they have been communicated, and they are being executed and followed up every day. Any business can do the same.

Let us take the subject of customers. What do customers expect from a management that is interested in ethics toward them? I can think of three things, roughly, that will give you an idea of what we mean; there are many others.

Isn't responsibility the first thing that customers expect? Don't they expect more than anything else that the company will stand behind whatever products or services it offers? Not all businesses are willing to do that. We have such things as the Federal Food and Drug Act, we have such government regulations as controls over unfair and untrue advertising, and so on, to catch the unscrupulous. Those are good things. I am all for them. They protect the good businessmen against the few bad. But most of business simply knows that it just is not smart to tell a lie. Most of business knows that it just is not good business to misrepresent; that it must accept responsibility for everything it says and what the customer sees in the product or service supplied him. So really the first responsibility is responsibility itself.

How reliable is this business? How dependable is it? Over a period of time that reliability and dependability becomes the greatest asset a business possesses. When people look at a brand name on a shelf and say to themselves, in essence, "I will buy that brand because I have bought it before, I have found it good, and I think it is all right," then that business has an asset that is more priceless than anything else it owns.

Fair value is the next thing for which I think a business is responsible to customers. I don't mean, necessarily, unusually good quality or unusually low price. It might be either one, or both, or a combination.

For example, ask yourself, "Is it ethical for the Cadillac Company to sell a motor car at the highest price of any motor car there is? And is it ethical, then, if that be true, for the Chevrolet Company, a part

of the same great corporation, to sell a motor car at the lowest price in that corporation's line of products?" What is the difference? Isn't it quality? The Cadillac people tell you in all sincerity, "Look, we've got a hand-tooled car that we consider the best that can be made, and we ask you to pay for it. If you want the quality and if you have the money, here it is." The Chevrolet people tell you, on the other hand, "Here is a car--the best we can make for the price. It's not a Cadillac, it's not tooled to perfection, but it is a good value because the price is right for the quality available." I insist that both are right, because they are offering fair value and neither is failing in its responsibility to customers.

Finally, I think uniformity is a responsibility to customers as an ethical part of any business. You would be surprised how much businessmen spend on quality control to make sure of uniformity. You would be surprised how much they spend on inspections, establishment of standards, and checking of standards to make sure of uniformity. It does not make the product any better, it does not make the price any lower, it does not increase production--it slows it down--but it assures the customer that each unit will be the same as the one that went before. And that is so important a responsibility of management to customers that we are willing to spend what it takes to maintain our laboratories and our inspection systems to assure uniformity.

These, briefly, are responsibilities of a management that operates in an ethical way. Those responsibilities extend to ownership, first, to make a profit; to employees, secondly, to assume a trusteeship for certain things that people want from their jobs, such as interesting work, fair pay, security, opportunity, recognition, and participation; to customers, thirdly, for responsibility, for fair value, and for uniformity; and, finally, above all, is the transcending importance of management's responsibility to the United States of America.

Thank you.

COLONEL BARNES: You might start the discussion, Mr. Reid, by explaining to the class your own company's policy on its responsibility to the community.

MR. REID: Yes. I found I was running a little short of time on the presentation and did not go into the ethical responsibilities of management to the community.

In our own company we believe that is just as important as our ethical responsibility to employees and to customers and have done it in this way: We have said, first of all, that any one of our executives who reach the eminence of membership on the Senior Board of Directors (our top management group of about 20 men, elected by the stockholders)

should have time on his hands to do some things besides his regular job. If he does not, there is something wrong with him; he has not learned how to delegate. He should have others who can carry out details for him, and he should be free therefore to devote a part of his time to community activity.

So we not only permit our executives to take part in civic affairs, we not only encourage them, but we require them to do so. Every member of our Senior Board of Directors has an assignment. It is not handed to him with the statement, "You will do this." He finds his own level, he seeks his own interest, he determines what it is he would like to do, and then we ask him to carry through on it, and we give him the time it takes to do it. If it takes some money, we frequently will make it possible for that money to be made available, too, for travel expense, and so on.

In my own case, I became interested in matters of local government. It seemed to me that we were just not rounding out our responsibility to the community in providing a president of the Rotary Club, a potentate of the Shrine, or the head of this and the head of that; that we were not really doing our job until we got somebody in local government.

It is all right for business to gripe about government and sound off about how poor it is, but it is very unusual for business to do anything about it by putting its own men into government, because getting into government means getting into politics, and that means getting your hands dirty on something that is sort of unpopular. But we did it, not as a command, but simply with the statement, "You will have our blessing to take the time it takes to do this job."

I ran for the Baltimore City Council, was elected, and have served three and a half years of a four-year term. Meanwhile, we are sponsoring young men to swing into government activity.

These are representative obligations to the community that we believe it is part of our job to undertake to do. We are not alone by any manner of means. There are literally hundreds of businesses that are doing the same thing all over the United States.

I believe that we are reaching a concept of responsibility not only to employees, customers, and owners, but to the community and the Government as well.

QUESTION: Sir, would you like to comment on the application of business ethics to the system of administrative pricing that we have now?

MR. REID: Yes. I think that question is a very fair one.

The system of administering prices that we have not, however, is, in my opinion, determined by the competitive, free enterprise system. I know, from our discussions of pricing matters in our own company, that we cut the margins of profit just as close as we can when we see that we have to do it because competition will take our business away if we don't. I think that is the real protection to the customer on pricing.

So long as that exists, so long as we actually do have free competition, and so long as we honestly maintain a free, competitive enterprise system, then our pricing administration is going to be made ethical because of practical reasons. I would not go so far as to say that management is going to be ethical on pricing simply to be good or simply to be moral. It will do so because of very practical competitive considerations.

QUESTION: Mr. Reid, I have looked at the depreciation reserves of corporations for some time. Without them, from the viewpoint of a stockholder, I could get bigger dividends; as an employee, I could get bigger wages; as a customer, I could get lower prices. With them, you are preventing me, as a banker, from loaning you money at a future date. Now the question of ethics comes up, and I would appreciate a statement as to how management views and rationalizes the establishment of such reserves.

MR. REID: Depreciation reserves have always struck me as honest accounting. I am trying to determine whether there is any feeling in your mind that they are not proper or that they should not be established.

QUESTIONER: They are disclosed, I realize, in every statement. But I was just looking at them from four directions, and they do not seem to make sense.

MR. REID: I would put it this way: It seems to me that allowance for depreciation is just as real a business expense as wages or any other business expense that we have. If we fail to take it into account, we are going to come to a very rude awakening someday. It may be deferred, but we simply would find ourselves in a very bad position if we did not allow for the fact of depreciation. We do have deterioration, either because of obsolescence or simply the passage of time.

I think what business can do about it is to exercise its ethical considerations in determining the amount of the reserves and the period over which a certain amount of equipment is allowed to depreciate. In our case, for example, we have favored long-term depreciation on buildings and on all equipment that we honestly believe will last throughout its life. But we have been very frank with ourselves in putting a short-term depreciation on equipment that we know is subject to obsolescence because there will be improvements on it. We don't hide it. We have never felt

that we should leave it out of the annual report or not reveal it to employees. It is there.

The realistic and ethical approach to depreciation reserves, it seems to me, is not to eliminate them but to be honest about them and make sure we establish them fairly.

QUESTION: Mr. Reid, you gave us a talk that might well be classed "business statesmanship" and something that all business could very well employ. In all my listening to speeches, I have yet to hear one on the responsibilities of government to business, or of employees and unions to business. Maybe, for ethical reasons, you did not feel like discussing these subjects. I was wondering if you would tell us how you feel about them.

MR. REID: I did not discuss them not so much for ethical reasons as for the reason that they were not part of the subject assigned.

Each of them really is a topic in itself, particularly the responsibilities of labor unions, which I am considerably exercised about and which I could discourse on for hours on end. I testified before a Senate committee just a few months ago on that very question. I regretfully announce that nothing has come of it and that we are still in the same position as we were before. That had to do with the entire subject of the responsibility of labor unions, since they have approached monopoly position in many industries that is equivalent to the monopoly position, or accusations of it, of business management. For example, it is quite true now that the antitrust laws, which were designed to protect the public against monopolistic practices in industry, should now be extended, in my opinion, to labor unions because they have reached monopolistic proportions that go far beyond the wildest dreams of any of our business managers. Our plea was that we simply extend to labor unions the same government regulations, particularly application of the antitrust laws, that we have already applied to business. The outcry at that very suggestion could have been heard for miles and miles. Yet, I think it is still perfectly reasonable, I think it is entirely feasible, and I hope someday that we will see it.

As to government, that, again, is a story entirely in itself. I personally would be satisfied if government would simply accept the position of being a regulatory agency and not necessarily a business operating agency. If that continues--and so far we have had it just about that way--I will be content that government's responsibility to business has been met satisfactorily. I think, further, that government must be impartial, and I cannot agree that the present Government is impartial, particularly in its indication of interest and favoritism on the part of management and labor.

QUESTION: Mr. Reid, in your coverage of the ethical responsibilities of management, you left out your responsibilities to your competitors and to the industry which you represent. I wonder if you would mind commenting on that.

I have in mind, for instance, something that is not too good an example, but it may serve. One of your competitors is quite good, we will say, and he has in a particular spot a man who is the one really giving you the trouble. So you hire him away from your competitor and use him yourself. As I say, that may not be a good example, but would you mind commenting on it?

MR. REID: I would be glad to. Let me say first that we would not do any such thing. Most businessmen will tell you that such direct pirating is usually not only ineffective in the results you expect to achieve, but in the long run causes more difficulty and retaliation than results from the regular employment process.

So I would say that our attitude towards competitors is roughly one of a football team toward an opponent. We are good friends except during the game, and we are out to win. We will do everything that we can within ethical concepts to win. But if it reaches the stage of having to hit below the belt, if it reaches the stage of "clipping," we are not going to do it. We would prefer to be able to live with ourselves and be happy with ourselves, and we feel in the long run it just is not worth it; plus the fact that if you clip and hit below the belt, your opponent clips and hits below the belt back at you. Some of them do it anyway. Those people would be even more inclined to make it tough for you if you tried unfair methods.

Specifically, on your example, we would not employ a man like that, nor would we expect our competitors to do so. It has never happened, and I don't think it ever will.

QUESTION: Mr. Reid, is not ethics in management on the verge of being rather sorely tested in the near future when the impact of military orders contravenes the profit taking or the profit potentials of business? If so, how will industry meet that ethically?

MR. REID: You are entirely right. I think that is what I had in mind in discussing at some length this map of the United States around the chain of business reaction. I can only hope that businessmen will rise to it and meet it properly. I cannot say that they will. I wish I could. I cannot speak for them.

I do think this: The best way to make sure that it is done is to appeal to an entire industry, because the gentleman's question about

competition is very well taken, and the principal thing a business wants to know, in giving up profits in order to render a national service, is, "Will my competitor get an edge on me while I'm being patriotic?" If he can be shown that it is an industry operation and not necessarily a company operation, then he will be much more likely to participate.

We found ourselves patriotic in World War II to the extent that we took a big licking. We had a limited amount of pepper. It was in very short supply. I was in charge of government contracts. I appealed to our management to give me so many tons of pepper to supply urgent requests we had from the armed forces. Our management decided after a board meeting to do it--not once, but twice, three times, many times. We packed the pepper for the armed forces and shipped it. We dissipated our available supplies. Some of our competitors, on the other hand, refused to bid, refused to help, accumulated their supplies of pepper, and dumped it on the civilian market. When we could not supply our customers, they swung away from us and over to our competitors. The thing that we will be inclined to watch this time is that when there is a demand for pepper, the demand is put to the industry rather than to a company and that the industry joins in the activity.

I don't think that management is going to be inclined to say "no." I think that it is going to be cautious, to make sure that all within an industry are treated fairly and given equal considerations.

COLONEL BARNES: I am sorry, gentlemen; the time has come when we must stop.

You can see from the showing of hands, Mr. Reid, that by no means has the class' curiosity expended itself. We do appreciate your coming down here. You have been very frank and very inspiring. Thank you very much.

MR. REID: Thank you.

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