EXECUTIVE RESPONSIBILITIES

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681

CONTENTS

Page

INTRODUCTION--Colonel C. W. Van Way, Jr., USA, Chief of the Manpower Branch, ICAF 107

SPEAKER--Mr. Alexander Richard Heron, Vice-President, Crown Zellerbach Corporation 107

GENERAL DISCUSSION 116

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Mr. Alexander Richard Heron, Vice-President, Crown Zellerbach Corporation, was born in Flesherton, Ontario, Canada, 13 September 1891. He received his B. S. degree from Southwestern University, Los Angeles, 1916. He began his career in the auditing field. In 1927 he became director, Industrial Public Relations with the Crown Zellerbach Corporation and since 1942 has been Vice-President of that corporation. He was Labor Relations executive, Pacific Coast Association of Pulp and Paper Manufacturers, 1934 to 1942; district director for Training within Industry, War Production Board and War Manpower Commission, 1940 to 1942; chief, Civilian Personnel, Army Service Forces, September 1942 to March 1943; director, Program Action Division, War Department Manpower Board, since March 1943; director, Postwar Planning, California, 1944 to 1946, and industry member, War Stabilization Board. Mr. Heron has been consulting professor, Industrial Relations, Stanford University, since 1940 and has been lecturer and conference leader, Industrial Relations Conferences at various universities all over the country. He served in the Army from 1923 until 1943 and rose to the rank of colonel. Mr. Heron is a member of the following organizations: California Society of Certified Public Accountants, Reserve Officers Association of the United States, Army Ordnance Association, Advisory Council, Personnel Administration, National Industrial Conference Board, Personnel Planning Council, American Management Association, Society for Advancement of Management, Public Relations Society of America, American Legion, and is also a member of the Masonic Order. He is the author of "Sharing Information with Employees," 1942, "Why Men Work," 1948, "Beyond Collective Bargaining," 1948.

COLONEL VAN WAY: General Vanaman, members of the Industrial College, guests: We have had this week very interesting lectures; first on the techniques and the skills of executives, followed yesterday with a discussion of some of the qualities that we can and cannot be sure of in management and in executives. Today we will consider what are the responsibilities of executives; what particular obligations are assumed by management because of the increasing complexity of our industrial organization; in what ways do we find that specialization of the worker is preventing him from carrying out the complete cycle of design, planning, production, and distribution; how does that interfere with his getting the complete rewards from his work situation; and what must management do about that? These and related problems are very much the concern of the executive. They greatly affect his relations with his employees and with his colleagues and are a large factor in the measure of his success as an executive.

To give you an interesting and thought-provoking discussion on this aspect of management, we are most fortunate to have with us today the Vice-President of the Crown Zellerbach Corporation, who is now an industry member of the Wage Stabilization Board. During World War II he was chief of Civilian Personnel in the Army. Since then he has been prominent in personnel management affairs and author of several books and very fine articles in the general field of communications and in the field of motivation of the worker. It is with great pleasure that I introduce to you Mr. Alexander Heron, who will speak on the responsibilities of management. Mr. Heron.

MR. HERON: General Vanaman, ladies, and gentlemen: Executives in business are composed of men who have risen to positions of responsibility by reason of a series of accidents, the best planned of which was probably marrying the boss' daughter. Having risen to these positions of responsibility, most of us go on doing the day's work on a purely tactical basis, meeting problems as they arise from time to time, outsmarting the other fellow, underpricing the competitor in the sales field, undercosting the competitor in the manufacturing or production field, and, more recently, outdoing the competitor in terms of accomplishing teamwork toward an objective.

I think the executive management in business and industry has been particularly slow to accept this third field of effort in achievement, not because of any resentment against the techniques

and philosophies that underlie the necessity of securing response and teamwork, but for a lack of a basic concept that has meaning, that can have meaning to the stockholder, to the president, to the line supervisor, and to the wage earner. And yet it seems a necessary concept that there is such a philosophy underlying the operation of the American economy; otherwise we should not have been able to work together all through this period of time. There must be a body of common objectives that has an equal and effective appeal to those who find themselves at all levels in the industrial and economic organization.

I have been trying to phrase these first few sentences rather carefully to impress you with the idea that I know what I am talking about. Now with your permission I should like to turn the page and approach the discussion from an entirely different viewpoint. I hope the time and my voice will last long enough so that I can come back to these introductory remarks and say, "That is what I said in the beginning."

A year or two ago, I found it desirable to read a book by Stephen Decatur called "The Private Affairs of George Washington." I recommend it to you for both interest and amusement and as an orientation in the ways of life of this country 175 years ago.

Stephen Decatur had access to the private records kept by the man who might be called the manager of the house for President Washington. The incidents to which I am referring occurred during the time when Washington had his place of residence in the City of New York. The particular things I want to mention are a group of purchases that are recorded in some detail in these account books. The account books also include some comments that were somewhat in the nature of a columnist's daily outpourings. It records the fact that Mr. John Wolfe was called to the residence and engaged to make a pair of boots for President Washington. He was called back at a later time to make two pairs of slippers for Mrs. Washington's nieces.

Another man, whose name is unimportant, provided a kitchen range for what served as the White House in those days. Another one sold to Mr. Washington a bedroom rocking chair. On another occasion the same man sold to President Washington a dining table and 12 chairs. Another one sold to President Washington quite a unique article called a phaeton. It was actually a large coach to be drawn by four horses. There were two brothers in this case who made the sale. There was a time limit on the delivery, a purchase price was agreed upon, and part payment made prior to delivery. The deadline was caused by the fact that President Washington was about to take a tour through some of the southern states--a nonpolitical tour.

Digressing for just a moment, after President Washington returned from this trip, the brothers came down to the stables at the Presidential residence to inspect the coach to see how it stood the trip. I noticed some of you laughing disrespectfully when I said this was a nonpolitical tour. I was speaking from a very basic reference there because President Washington came out to talk to the men and complimented them on their workmanship because on the entire tour he never became conscious of a single loose bolt or nut. 685

To go on down the list--which I made for my own interest and amusement, covering about 40 items of this kind--there is nothing peculiar about them. They are the kind of things any family purchases--a coffee pot, a set of sadirons, a bedroom heating stove, and various other things. There is nothing startling about them as articles. The thing that is startling is the method of purchase. They are the kinds of things which you and your wives would go and inspect on the showroom floor today. Each one of those articles was made to order. Being in the paper industry, I was particularly interested in the fact that one of the purchases was 500 pounds of foolscap which was not purchased from a stationery store but from a papermaker who took the order and made 500 pounds of foolscap paper for the President of the United States.

Mr. John Wolfe, the bootmaker and shoemaker, was a fairly good example of the industrial economy of that day. He had no stock of boots and shoes on the shelf. He had a stock of good will; he had a stock of skill and a reputation that belongs with it; and in addition to that, a group of customers who engaged him to make their boots and slippers for them.

In the year 1790, as nearly as we can analyze the Census reports, the majority of white males in the United States were self-employed. They were self-employed in the sense that they had no employers who paid them wages and salaries. They had to get new employers for each day's work, each hour's work, each week's work, or in the case of the carriage builders, four months was one job for them. Ninety percent of what we considered the work force in those days consisted of those men who were self-employed. According to the Census of 1950, about 86 percent of our work force consists of people who are on somebody else's pay roll, almost reversing the percentage in 160 years.

John Wolfe, the shoemaker of Washington's day, has his counterparts today. There are 700 bootmakers and shoemakers in the United States who make shoes to order, who do not have shoes in boxes of various sizes for customers to come in and try on. There are four of them in San Francisco. I was curious enough to investigate their business to a certain extent. Two of them specialize in made-to-order

boots and shoes for people who have foot deformities and come to them with prescriptions--700 of them throughout the United States who, like John Wolfe, produce made-to-order shoes and boots and are self-employed, in business for themselves.

On the other hand there are 250,000 people making shoes for us in factories in the United States, largely concentrated in three areas. They are the lineal descendants of John Wolfe of 1790. They are men who make shoes for the population generally. We have better shoes and boots than George Washington had. We have them at definitely lower cost, in selections available to us in shoe stores at any place in the United States. For most of us we buy the shoes at a point 2,000 to 3,000 miles away from the place where they were made. John Wolfe made his living by acquiring a skill, making a reputation, and going out and selling his services or letting customers come to him to buy his services. These 250,000 people whom we can look on as his lineal descendants don't do any selling on their own. They couldn't make a living going out and asking people to buy some more shoes. No one person makes a pair of shoes. Each one does one part of the process. The people who make the shoes aren't even very much concerned with the ultimate retail price of those shoes.

Now if I may move over to a little personal piece of knowledge, in our company operations we employ some rather high-priced individuals whose job is to cut down hemlock trees 200 feet high, cut off the branches, and cut the trunks into lengths which are merchantable logs. They earn high wages--about 25 dollars per day per man. They have skills; they have a hazardous occupation. They are entitled to all they earn. They are very valuable people and without them our business could not operate. Now these men can't sell their services in the way John Wolfe sold his service, because nobody wants to buy a 200-foot log for his own use. In our operation that log is moved from where they "fall" the tree to a sawmill, then to a pulp mill, to a paper mill, and eventually it finds its way out of that paper mill as rolls of paper.

You might think that is the end product. It is not the end product because nobody wants to be the owner of 2,000-pound rolls of paper. So it goes to the newspaper office. It still is not the end product because the newspaper publishing office can't afford to get its funds tied up in paper. The newspaper office must get the rolls out of the warehouse, on the press, and off the press in the form of the printed newspaper as rapidly as possible. The printed newspaper is purchased by you, by me, and by a lot of people who sell you other things; people--such as department stores, secondhand car dealers, television repairmen--who buy advertising space in the paper.

But eventually you and I buy the paper at a newsstand for 5 cents, and out of that 5 cents and out of the advertising revenues of the published newspaper money finds its way back along the almost endless road. Eventually some of that 5 cents which you and I pay for the newspaper finds its way into the pay checks of these two men who work out in the woods. We contribute to the 25 dollars a day for the men at the foot of the hemlock tree. We contribute to the shoe workers in Lynn, Massachusetts, through the shoe store in San Francisco, where I buy my shoes, and to the stores where you buy your shoes.

Between this stump of a hemlock tree in the northwestern corner of the United States and the newsstand in Washington, D. C., where you buy your newspaper, a very complex chain has been built. It is the chain of selling and distribution, conversion, remanufacture, packaging, advertising, and all the things that are necessary to that part of the work of the employee in the shoe factory, the product of the worker, the man standing at the foot of the hemlock tree, to convert his work to a form which you and I can use and for which we are glad to pay. Our money is carried back over those same long stages and part of it goes into the pockets of John Wolfes of today, the Scandinavian men standing at the foot of the hemlock tree.

One of the reasons that we in management have been rather slow to grasp that concept of teamwork has been because we have been slow to grasp some of the responsibilities that rest upon us. Some of you are old enough to remember the depression. A great many steps were taken to relieve the hardships imposed on people because of that depression. In almost every gathering of men who had not suffered in the depression, you would hear them saying, "Why don't they go out and get to work? They have no ambition. They would rather be on the WPA pay roll." Many of these men had experienced the depression of 1907 when it was possible for every man to go out and get some self-employment--washing windows, repairing shoes, cutting down logs.

All our technology has made it impossible for a man to be self-employed in the sense possible 50 years ago and much less than was possible 170 years ago. Eighty-five percent of us today depend upon somebody else to sell our services for us.

We could have a depression-proof economy in the United States, based on family units which are completely self-supporting and have no hazards--except those which are acts of God, such as weather, floods, frost, drought, whatever it may be. We could have a very stable economy accompanied by a very low standard of living, but we have been completely unwilling to do that. In the growth of our American system and economy, we demand a high standard of living;

we demand the opportunity to buy on the average three pairs of shoes every year, and there couldn't be enough John Wolfes in our population to produce those shoes, certainly not if we limited the operation to the area where we could walk to the shoemaker and buy our shoes. So we have concentrated our shoemaking in three areas of the United States and enjoy the abundance of mass production.

The first automobiles were built by skilled craftsmen, mechanics who could work to the smallest tolerances. If we needed to build automobiles in that way today, we should probably need something like 10 million of those craftsmen; there aren't in our population 10 million men and women with the mental capacity and aptitudes to become that kind of skilled craftsman. So we have specialized the operations in the building of the automobile. We have concentrated a million workers in that job. We have made them dependent upon that job. They are dependent for their incomes upon the organization planning, capitalization, engineering, and above all, the comprehensive job of selling that is being done by management in their respective organizations.

As a result of that concentration and specialization, two things have happened. Unfortunately, we have given a great deal of attention to the separation of the individual worker from the finished product, denying him the satisfaction of seeing the article which is the result of his effort. Much more serious, however, is the fact that we have created this great gap between him and the customer who actually provides the money to pay his wages. We have made him dependent upon the management and capitalization of the organization for which he works. Fifty million Americans today are working on salaries or wages, depending on someone else to get their money from the sale of the product that is the result of their work.

We have been slow to recognize the fact that private management is still being trusted with the management of the American economy, the greatest organized activity that the world has ever known. In the world today, this country and perhaps Canada are the only places where private management is still trusted with the operation of the great economic machine.

The three basic obligations upon management are these: First, to produce an adequate supply of goods and services to meet the demands of the present standard of living and to improve that standard of living; second, to distribute fairly the income resulting from the sales of those goods and services, to distribute purchasing power in such a way that the economy can continue to operate, and so that people will give willingly of their abilities toward that production job; and third--which we have long overlooked--the responsibility to employ the work force of the Nation. Management has been

very slow in accepting, very resentful against, this last concept. If the private management of the American economy falls down on the job of providing an adequate supply of goods and services, it will be ousted from its management and denied the trust now imposed on it. Likewise, if it makes an unfair, illogical, inefficient, distribution of the proceeds so that the incentives are denied to some groups and purchasing power is denied to other groups, it will be ousted from its responsibility. Most of us can remember when that happened temporarily. If the private management of the American economy fails to operate the economy in such a way that you and I and 55 million others have the opportunity to have our services sold for us--in other words, have a job--management is again in danger of being ousted from its present position of responsibility.

One other thought on this broadened responsibility that rests upon private management is demonstrated by the progress in psychological analysis and classification of the last generation or two. The psychologists have given us certain norms for fixing the classifications of people. I want to mention just one, that is the factor which they still call intelligence, and for simplicity sake, let us talk about the intelligence quotient of 100. It is probably about the average of the intelligence of the population in the United States. On either basis it shows that about half of us have an intelligence quotient lower than 100 and about half of us have an intelligence quotient higher than 100. There is a tendency for an employing company, when it gets enthusiastically interested in testing procedures of various kinds, to say, "We want the best and nothing but the best." If all employing management did that, we would have a well-planned revolution on our hands because half of us with less than a 100 I.Q. would be denied jobs by such a selection. Actually, there is need for some above and some below average mentality. Those who have below average mentality have the same human and social right to have their services sold for whatever those services are worth as do those who are above the average in mentality have.

One of the curious things is that the modern mass production industries stumbled into a performance of this responsibility without being conscious of its existence. I mentioned that we would need millions upon millions of highly skilled craftsmen to build automobiles as the first automobiles were built. We have a million workers building automobiles today. The same mass production that has confused us socially and has created problems for us has made a great social contribution because the kind of automobiles made today can be produced by people with less-than-average mentality, with the skills of precision mechanics. The assembly line has made a great contribution toward the performance of this obligation of management, which is to provide jobs for the cross section of the population.

Now, just two or three personal comments about what this philosophy means to various people or to management. This consciousness of responsibility in the economy to provide jobs as well as to provide goods and services and purchasing power has created a sense of responsibility for the conservation of the resources of our Nation; it has created a sense of responsibility for long-range planning. Today a corporation is not a matter of the lifetime of the officers or the stockholders. It is a matter of perpetual performance. In a company with which I am familiar--without a commercial, confessedly it is my own company--we spent in the last 5 years 15 million dollars to plant trees and to acquire tree-growing areas from which trees will not be cut until after 1990. There is not a man in our management today who will be living when those trees mature. But if those trees for the future were not provided, whole communities would be ghost towns by that time.

In the fields of management such as petroleum and chemicals, millions and millions of dollars are being spent every year, hundreds of millions of dollars, almost up to the billions, which, if they are successfully spent, become investments from which returns will not be realized for another generation. If they are not successfully spent, whole industries will pass out of existence for a dearth of supplies, for a dearth of technical knowledge, in a generation or two.

This same sense of responsibility upon private management to provide jobs has had a corresponding realization among many union leaders of my acquaintance. They have realized that they have a job in battling with management over division of the sales dollar--how much to the wage earner; how much to the rehabilitation of properties, the physical plant; how much to the stockholders. They will never cease to carry on that battle and that battle will never be over. In the nature of things, it is a necessary, continuous argument. But man after man of my acquaintance has grasped the concept of the fact that the division of the sales dollar is of no value to his constituents unless there is a sales dollar; that the basic objective--beyond cooperation, which is essential in the interest of the working man himself--is the objective of a salable product well sold, whether it be a commodity or a service. I think that through all levels in the industrial economy, the idea is gradually penetrating that the janitor, the telephone girl, the watchman at the gate, the foreman, the timekeeper, the personnel administrator, and the board of directors, are all engaged in a selling job; that without that selling job they will never build the bridge which carries the customer's dollar back to the pay-roll window where part of it goes into workers' wages. In this concept I think we have found a place upon which management, wage earners, legislators, and even social reformers, can stand together.

I want to close with one comment about social reformers. There was a theoretical social reformer who flourished in obscurity. If he is looking up from where he is today, Karl Marx is probably surprised to see the attention he receives today. In one of his writings he said, "Some day society may write upon its banner, 'From each according to his ability; to each according to his needs.'" Some of my conservative friends have denounced that slogan as a basically evil thing in itself, overlooking the fact that Karl Marx picked it up from the context of the New Testament. It didn't work in the early Christian church. It hasn't worked in any past economy in the world, whether it has been socialized or communistic.

Strangely enough it has worked in the United States and our particular type of capitalism has a right to claim the performance of that slogan to a greater extent than any which has ever existed in the world. There is abundant proof that we have gone further than any other economy has ever gone in furnishing to each according to his need. Yet that has not been our objective. That is not the target at which we have been shooting. The reason for this anomaly is that in a socialized-communistic economy they lack incentive to get from each according to his ability. They have no incentive except fear over a great level of the population does not bring production. In the American economy we have this incentive in all its forms, ranging from wages to dividends and all things that those incomes will buy. Because we have out-produced any other economy, because we have gone so far in getting from each according to his ability, we have been able to go further than any other society or economy in getting to each according to his needs. We are not far from realizing that this is a common job. In our economy we can have this standard of living and get from each according to his needs, but it is a highly specialized business, a highly specialized job, a long chain of dependency of one man upon others to get his product sold, a realization that the only thing that matters for many of us is the sale of the product.

It seems to me that in doing the job in American industry and American business this concept can be fitted to the investor; to the man who goes out to try to get capital from the investor; the engineer who plans a building; the worker who executes the plans of the engineer; the purchasing agent who goes out to get material to be converted into a salable product; the man who develops an idea for service which will make life more comfortable, more enjoyable for a million people; the girl who sells tickets in front of the movie theater, with a smile which makes the customer want to come back. The movie theater girl takes cash from us to pay the movie actor. All these things serve as links in this long chain which has its end point at the final sale; this long chain of the salesman selling, management planning, engineer constructing, distribution, packaging,

advertising, and all the other steps which are essentially part of salesmanship, including the management of the production line. When the chain is complete and it is functioning, the autos are flowing continuously from the manufacturer to the wage earner who then becomes the customer and starts dollars flowing back the other way.

I have found that when discussing issues with labor unions we have reached common ground when we realize that we are partners in an enterprise and we are successful to the extent we are able to sell the product, whatever it may be. We shall probably always disagree on the distribution of the dollars which come from the customer. But we have this common objective of the ultimate sale, and this is what makes it possible for our American economy to perform efficiently and, I think, economically. The structure is not socialistic nor communistic, class warfare, government by the proletariat, but our economy is actually getting from each according to his ability so that it may be possible to give to each, in return for his contribution, according to his need.

QUESTION: Relative to these three responsibilities you speak of, that management is entrusted with, we have some glaring examples of failure in this world of management to live up to those responsibilities. Would you care to say a few words briefly about some of the failures of management in those three directions?

MR. HERON: In the development of the hydroelectric power resources of the continent, private management failed to do a job. Being a part of private management, I am very prompt to say there was no reflection on private management that it failed to do the job. It is inconceivable that we would have permitted the allocation of two billion dollars of private capital to build Boulder Dam, Shasta Dam, and Grand Coulee Dam. It was a function that was beyond the range of private management to do. But as a result of that, hydroelectric power has largely passed from the responsibility of private management to the responsibility of public management.

Number two is the field of low-cost housing, which private management failed to deliver, and which our standard of living demands. Again, there are various reasons completely aside from the desire for profit, the incentives to private capital to build higher-cost housing. But low-cost housing was becoming an economic necessity in this country, and as of today private management has largely lost the trusteeship of building low-cost housing, and private capital has lost the responsibility of financing low-cost housing.

Another one, perhaps not so dramatic, is that private management in the twenties did short-range planning which did not involve

this concept of a balanced economy, with enough jobs and enough purchasing power. When private managements fail to plan an organization so as to do that, the result is the unemployment of the depression days. The thing that had stopped was the selling process. We had just as many natural resources, just as much technical knowledge, just as much plant, just as much manpower, and all the rest, in 1932 as in 1928, but nobody was buying. A sufficient number of people were not buying those products. Management had fallen down on the selling job. A great many members of management had been interested in the stock market, so the complete responsibility of providing jobs was taken out of management and sold by management, which is a lesson we can't forget. Private management economy can stand a great many deflections from private management to public management--such as the development of hydroelectric power and low-cost housing--but it can stand very little failure on the part of management to keep the economy as a whole operating. If again in America we fail to do that, we must look forward to a different type of economy. The more we move to a different type economy, the more apt we are to lose the spark which is the incentive to produce.

QUESTION: Would you comment on how prevalent your ideas of responsibility of management is among top management in this country, particularly number three, that is the idea of teamwork?

MR. HERON: There are three or four people in top management in the United States whom I do not know--possibly even five. Instead of trying to say how prevalent it is, I would rather answer as to whether or not the prevalence is increasing--and it is, with tremendous rapidity. In just about 50 years management has moved almost bodily to this concept of long-term planning. At the turn of the century it was almost missing. The only great example that we had had, gentlemen, was the building of the railroads, and there, as you know, in the last half of the nineteenth Century, the building of railroads was more of a financial venture than an industrial venture. But with the turn of the century, strangely enough, with the formation of some of the so-called large trusts, management sensed its responsibility for long-range planning. That brought about a sense of responsibility for the conservation of natural resources, their exploitation, their development. You can't create more oil in the ground, but in the last 20 years the oil industry probably multiplied tenfold the production from a single barrel of crude oil. That is long-range planning, that type of research.

The prevalence of this sense of responsibility is reflected in research. It is reflected in investments, in the human relations field. While the figures are readily obtainable only in physical research, I am sure that today American business is spending nearly as much in the field of research and experimentation in administration,

and also in the human relations field, compared to what is spent in physical and scientific research fields. These are not social fads. These expenditures are for exactly the same purpose as expenditures in physical research. They are to find out ways of producing cohesion in the team.

There is a greater acceptance of either the concept I have outlined this morning or some other concept that gives body to the whole program of teamwork that has been labeled the long-range goal. For a football team, of course, the goal is the immediate goal post on the opposing team's end of the field, but for certain major teams, the actual goal is one of the bowl games. It calls for different planning of the strategy of the coach, whether he has to think of today's game or the New Year's game in some bowl. The most encouraging thing I can say is--and it is important not only on the side of management, of business, and on the economic side, but on the labor-management side--perspective is coming into the picture, the view is also broadened. This places the human relations aspect as one of the tools, not of management, but one of the tools of teamwork, one of the tools for getting to the Rose Bowl. It comes more and more into the picture. It is growing with tremendous rapidity, and it has, I think, very encouragingly, passed the stage of faddism which it went through in the late twenties and early thirties. One of the great contributions to its growth has been legislation, the subsidization of the power of organized labor. When I was a boy, people became religious because of the fear of hell-fire, and we are all young enough to remember when management had a certain smell of brimstone. Even Roosevelt said that management had a certain smell of brimstone outside the door which often has a very moral effect.

QUESTION: In discharging the second responsibility, the distribution of profits, purchasing power--subject, of course, to bargaining between labor and management--there seems to be an increasing tendency for government to participate in that bargaining or determination of the division of purchasing power. How far, in your opinion, can government go in determining that division or assisting in determining that division and still have a private enterprise economy in this country?

MR. HERON: I should like to answer that by drawing attention to the difference between a semiemergency such as we are living in, an outright war, and a peacetime economy. In the present emergency the Government can enter far deeper into the field without destroying incentives or the initiative that sparks private management economy. In ordinary times when the goal is an improved standard of living rather than production, government can go very sparingly into that field without destroying private initiative. Private initiative has gone far in getting from each according to his ability;

until we get from each according to his ability, we are not going to have enough to give each according to his needs. As well as policing of government functioning, "Thou shalt not do this to thy neighbor," government has undertaken some positive things, "Thou shalt do this for your neighbor."

It was a revolutionary thing when the Government took over the postal system, and when honest, enterprising, private capital that was invested in toll roads was practically confiscated and the roads became public thoroughfares under government management. Where government management enters into the field to produce things that can be used for furtherance of an economy--no matter how it is managed--we have come to accept it, and have trudged down to Washington to get government to provide harbors and a better transportation system.

Where management fails to do a good balancing job in the distribution of purchasing power, sometimes it is the salvation of private enterprise for government to step into the picture and redress that balance, and then get out. But for government to fix the distribution of purchasing power is for government to destroy the incentive which prompts high production. We never would have had a shoe factory replacing the John Wolfe I mentioned unless someone had taken the risk with an opportunity to make a gain. Government supervision of distribution of the proceeds of sales, or distribution of purchasing power, eventually would mean the denying of incentives, the urge to take a risk. A man would never leave a job to take a better job if all jobs had the same rate of pay. The incentive for a man to quit working for one plant and go to work for another plant is just as important to our system as it is for a man to take a risk in investing his capital.

QUESTION: You lay management's acceptance of responsibility to this fear. Whether it likes it or not, it is still the responsibility of management to make labor cognizant of its responsibility in that it must give in accordance with its ability.

MR. HERON: That reminds me of a man with whom I was associated 20 years ago. He was a very marvelous old gentleman. He lived to be 90 years of age. He was a sincere adherent of a certain religious sect. He had a tremendously active conscience, a sense of his responsibility toward God. God had placed him in a position of considerable financial and industrial responsibility and his conscience led him to be extremely fair and just in the proper distribution of purchasing power, so that the workers got what they should have. But, along with that, God had also given him a greater wisdom than any worker or collection of workers or certainly any public agent; for him to have surrendered the exercise of judgment as to what was good to

distribute would have been an act of disloyalty to his God. He never said these words. He was just as sincere in it as I have described in my language.

The purpose of our incentive system is to get from each according to his ability. The reason socialized and communized systems do not get it is that they have substituted the whip or Siberia for the incentives, and when management wastes its incentives, when it distributes a share of its sales dollar without attaching a price tag on that in terms of production to be delivered, the service to be delivered, my religion teaches that management is doing an evil thing and is not discharging its responsibility.

Now, unless the incentive system works to get from those who work for wages the full measure of their contribution on the basis of their ability, the economy is just as likely to collapse as it is if management tries to get all the value of the sales dollar, and there is no way that management can shirk its responsibility to get every member of the team to give his share to winning the game.

QUESTION: I would like to go back to your example of private management selling its responsibility in the case of low-cost housing. I think in the case of company towns--Scotia, California, mill towns--under the tax system I don't believe security regulations will allow a company to include such responsibility as an allowable cost of operation. Would you care to comment on how much government has interfered? It is not a matter of private management selling, but rather of government seizing that part of the responsibility away from private management.

MR. HERON: It is about 51 percent each. The failure to provide low-cost housing was not an incident of company establishments where all company housing had to be provided. Quality company housing was on a different level. We are in a process of that kind at one of our mills which is very remote. It provides one type of housing. It is adequate. Discharging that responsibility of providing good, low-cost housing is a thankless task. It seemed here the failure was in recognizing this was a cottage-type housing and rental housing. How acute that failure was, no one will ever know, but it was sufficiently acute that it became an emotional thing and the demand for low-cost housing became irresistible. The Government has not been able to supply low-cost housing in the sense of the cost of the housing itself. It has been able to subsidize the occupant of the house so that to him it is a low-cost house.

The prevention of a company's making an investment of that kind arises, I think, from an entirely different set of reasoning in legislative minds--again the question of the distribution of the sales dollar. I think it is one of the efforts of the Government

to take too much of the sales dollar to pay the allowances of Army, Navy, and Air Force officers, thus preventing some long-range investments. But during the last 20 years we have seen--I will put it very charitably--alert theorists anxious to capitalize every seeming failure on the part of economic management, to project any type of failure into the picture. One of the most necessary of these projects was the hydroelectric project. I haven't the slightest doubt that some of those projects have been socially engineered to the present stage, with the intent to harass management until private management must give in. You find there an emotional demand for government inferference and by and large it is a tool for a social theorist to use.

QUESTION: Your statement, I think, represented a very high order of management statesmanship. I am wondering how some of these can be translated into realities in terms of an individual company. Suppose we should, by some miracle, achieve peace all of a sudden; all war orders stopped and we had a temporary depression. Suppose a particular company employed 15,000 people normally and under the new setup it required only 10,000 people. How could that company keep from laying off the 5,000 people? In other words, what can management do in a situation like that to underwrite this third objective of maintaining continued employment of the labor force when a depression takes place?

MR. HERON: One of my jobs was postwar planning for the State of California. We had a very successful airframe producer out there. He was publicized in "Time" magazine as a great industrial tycoon. He was asked what his postwar plans were when the Government orders were withdrawn. His answer was, "We will shut the plant down." There is a difference between that and the company who can go ahead and employ 10,000 after 5,000 come out. The responsibility of that individual company is to see if it can build its sales effort through cost reducing, efforts to do research, efforts to improve its product to make it more salable; can do things to stretch the 10,000 to 11,000. The real solution lies in every enterpriser in the country being conscious of that same opportunity. He must be conscious, first of all, that there is no job in the country unless a product is sold. There is no such thing as a job or employment unless there are sales; therefore, management must have this concept of selling as its primary responsibility, because selling is the thing that creates jobs and jobs in turn create purchasing power. Making sales brings in all elements of management; they are all parts of the selling job. The management can do something about it or a group of companies can in a community. A new community might not have the organization to do it. We saw it happen in California when we had a hopeless postwar problem. One of our greatest hopes was that people would stop coming to California. A lot of shipyard workers went home, but they met their in-laws coming out. There was a net

in-migration to California of 25,000 people per month. There hasn't been a month since 1945 when 25,000 more people haven't moved into the state. Yet there was this native determination to get out and sell products so that even before Korea, there was very little unemployment in California.

I grow to have less and less faith in organizing efforts, setting up committees to do things, as I grow older, and more and more faith in getting a reasonably uniform concept of what it is we are trying to do and then going ahead and doing it. If we can spread this concept widely enough among management people, then the incentive spark in our system will carry us through, provided we do know where the goal lies.

QUESTION: I would like to return to Mr. John Wolfe, that master craftsman, who derived a great deal of the inducement that he needed to do his job and do it well from the satisfaction in a job well done. As you so well illustrated for the bulk of our work force, our labor force today, that satisfaction cannot exist. Recognizing that management has labor within its plant physically, in body, for "X" number of hours a day, what, if anything, is being done or can be done to substitute for that inducement that John Wolfe enjoyed that a member of the labor force today does not? I am thinking of inducements other than wage inducements.

MR. HERON: First, let us make it very clear that in working jobs the number of people who would get a measurable satisfaction out of that accomplishment and the extent to which the finished product gives satisfaction is not large. It is not the majority. On the other hand, we have found that there is an indispensable satisfaction to a worker in knowing what he is making; whether he finished it or not, he wants to know what the end product is; what it is for; and where it goes. Those two woodsmen are pretty good examples of men who want to know what becomes of the hemlock tree after it is cut into logs.

I made a mistake about nine years ago and wrote a book entitled "Sharing Information with Employees." The sales of that book last year were greater than they were in the previous eight years. But in this field of communication, management today is making tremendous advances in trying to get across to the man who has an isolated, meaningless job what that job means to the rest of the functions of the plant. That is the most realistic substitute that I can think of for the craftsman's satisfaction.

You are all more or less familiar with the General Motors essay contest, "My Job and Why I Like It." Psychologists worked on that; psychologists planned it with rather high-type, upper-level consultants. I think on the whole it was a very instructive effort.

There were 187,000 letters, not buttering-up letters for the boss to read; there were some criticisms also. But this peculiarity showed up: The production worker who tried to write about his job and why he liked it, talked about the understanding foreman; talked about the kind of product his division of the company made; talked about the product with pride; talked about the number of General Motors cars on the street, the high quality of those cars; talked about the facilities surrounding his job. Practically no one mentioned pay. That is something they assumed was taken care of by powers outside the man's individual scope. He frequently talked about his opportunity for a better job, to learn something.

Among the skilled craftsmen who by the thousands wrote those essays, there was almost never a reference to the size of General Motors or to the quality of its products; nothing as to the kind of people he had to work with--supervisors, companions--but there was a tremendous emphasis on the respect the company had for crafts; the extent to which it maintained its equipment properly; the way it guarded and kept in repair its tools; the investment that it made in precision equipment of various kinds; and right back around the circle again--"This is a company that respects craftsmen." That indicates the difference in the attitude of the man who is a craftsman with a skill and the wage earner who must find something which will substitute within his needs for the craftsman's sense of accomplishment when he sees a finished job.

In our own experience we had a man to whom I had given a five-year service pin. He was a rather wizened-up individual who came from the hill country out to the west coast during the war. This was in 1948, which meant that he had been hired in 1943. There were actually 400 jobs in that particular mill that were subject to turnover. About 80 to 90 percent of the people in the mill stayed there. But to keep these 400 jobs filled we hired 6,000 people in four years. He was one of those who stayed. That interested me to begin with. I made some other inquiries about him, offhand questions. Not being a psychologist, I could only guess at his I.Q. To prevent myself from challenge, I would say it was certainly below 100 by any ordinary test. When I gave him the pin, he smiled and held on to my hand and chatted with me for a minute. His job was loading lime rock on a train of cars on a tramway or railroad. After he loaded a car, he would give it a little push and pull up another one, load that, and push it on. An electric locomotive would take the loaded cars away. He had been offered jobs more in keeping with his age but he wouldn't take them. He took a minute to tell me what an important job his was. He was not going to trust anybody else to man this job of his because this lime rock had to go down. "They use that rock,"

he said, "to make pulp, and the wood pulp is what keeps those mills going. A man who doesn't know what it is for is liable to shut down the paper machines over there by not doing that job right." If we could do deliberately for the average worker in those plants what that man had done for himself through his imagination, we would have the most wonderful industrial organization the world has ever known. We are trying falteringly, earnestly, religiously, to do the next best thing for every worker in the organization, and I think to a very great extent this fad for communications today is a sincere but perhaps stumbling effort to let the worker, like that lime rock handler, know where his job fits into the whole.

QUESTION: Do you think that private management is failing in the railway industry and eventually the Government will have to take it over?

MR. HERON: I am glad I am among friends today. First of all, I think that private management in the organized labor of the railroad industry is failing dismally to get the long-range view; second, I think that management on the executive side is failing in what should be its efforts to get the labor-management side of it to see that long-range view. Whether the Government will eventually have to take it over or not is anyone's guess. The Government taking over an industry organized as that one is will be no solution whatever to the problem, because the Government will be faced with exactly the same task of getting understanding and compliance up and down the line. Don't forget the executives of railroads are products of a seniority system, and therefore seniority is one of the sacred cows that can't be touched. There is probably a little smell of brimstone outside the doors of railroad management and railroad union management in the competition of other types of transportation. Maybe something magical will happen there. Government ownership and operation will not be equipped to do it. I imagine some of you are engaged in government management of the railroads now and there is no marked improvement.

COLONEL VAN WAY: Mr. Heron, I certainly thank you for taking your time and coming over to discuss your views with us this morning. On behalf of the Industrial College, the staff, faculty, students, and visitors, I thank you very much.

700

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