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ORGANIZATION AND MANAGEMENT OF AN INDUSTRIAL ENTERPRISE

23 January 1952

1017

CONTENTS

	<u>Page</u>
INTRODUCTION--Brigadier General J. L. Holman, U.S.A. Deputy Commandant for Education, ICAF.....	1
SPEAKER--Mr. Reginald E. Gillmor, Vice-President, Sperry Corporation.....	1
GENERAL DISCUSSION.....	8

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RESTRICTED

RESTRICTED

1018

Mr. Reginald E. Gillmor, Vice-President, Sperry Corporation, was born in Menomonie, Wisconsin, in 1887. He was graduated from the U. S. Naval Academy in 1907, and served at sea on a destroyer, a light cruiser, and the battleship Delaware. In 1911 he went to the post-graduate school at Annapolis to study electrical engineering. In 1912 he left the Navy to join the Sperry Gyroscope Company. The company then had four employees and was having its experimental gyrocompass and other devices produced by contracts with job shops. In February 1913 he went to England to establish the Sperry Gyroscope Company, Ltd., and the European agencies of that company. Upon the entry of the United States into World War I, he re-entered the Navy and became Flag Secretary to Admiral Sims, Commander of the U. S. Naval Forces in European waters. In 1918 at the request of the Navy Department, he undertook to reorganize the Sperry Company of New York on a war basis. He later became successively the Washington representative, sales manager, vice-president, and was the president of the company from 1932 to 1946. In 1946 he relinquished the presidency of the Sperry Gyroscope Company to become the vice-president of its parent company, the Sperry Corporation, which at that time had 12 subsidiaries or divisions. In August 1947 he was loaned by his corporation to the State Department as director of the Industry Division of the American Mission for Aid to Greece. In September 1947 he was appointed vice-chairman of the National Security Resources Board; he returned to his former status as vice-president of the Sperry Corporation in March 1949. In August 1950 he was loaned by his corporation to the Federal Maritime Board for service on a special committee for ship construction subsidies. He is a member of the Board of Advisers of the Industrial College of the Armed Forces. He is a visiting lecturer at M.I.T. and the author of numerous papers on "Organization and Industrial Relations."

RESTRICTED

RESTRICTED

1019

ORGANIZATION AND MANAGEMENT OF AN INDUSTRIAL ENTERPRISE

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GENERAL HOLMAN: The early history of America is characterized by the adventurous excursions of daring men who searched the vast unexplored continent for new trade routes, precious metals, and rich agricultural land. For the modern explorer the search is most often for better ways of designing, developing, and producing useful products which will improve our modern standard of living.

Our speaker this morning, Mr. Reginald E. Gillmor, Vice-President of the Sperry Corporation, is in every sense one of these twentieth century explorers. His broad interests and high professional capabilities as a naval officer, an engineer, an industrialist, and an administrator have taken him, year after year, into scientific and managerial fields where there were no trail markers.

In recent years Mr. Gillmor has devoted much of his time to requests from high officials to help solve pressing governmental problems. In 1947 he served as director to the Industry Division of the American Mission for Aid to Greece. Then there were two years he served as the deputy director of the National Security Resources Board. Since 1950 he has spent considerable time as consultant to the Federal Maritime Board. He is a member of the Advisory Board of the Industrial College and has always been most generous and helpful in that capacity.

And so again we have called upon him to talk to the college and to be our first speaker introducing the Production Course, with a discussion of the philosophy of management as applied to an industrial enterprise.

I take great pleasure in presenting to you Mr. Reginald E. Gillmor.

MR. GILLMOR: Thank you very much, General Holman, for that very gracious introduction.

Good morning, gentlemen. I am very glad to be at the Industrial College. It is nice to have such an interested audience to talk to.

A little over a year ago I was requested to prepare a paper for the International Management Congress which took place in Brussels last June, and at which 16 papers were presented, I believe, on subjects of fundamental importance in management. The paper I was asked to prepare was: "The Structure of Large Enterprises in the United States." So in speaking on the subject that has been given me this morning--"Organization and Management of an Industrial Enterprise"--I am speaking very

RESTRICTED

RESTRICTED

1020

largely of the composite picture that we obtained when we prepared this paper for the Management Congress.

It was a very interesting experience to prepare that paper with the help of a committee of 16 men eminent in management. Although we never sat together, we had many meetings on the telephone. Every member of the committee helped to enlist the cooperation of large enterprises in answering a questionnaire of 15 pages with which we accumulated the information as to the characteristics of large enterprises, including not only industrial enterprises but banks, railroads, insurance, and merchandising companies. Altogether we got responses from 50 large enterprises, which gave us a good understanding of their common characteristics.

Organization, Management, and Administration are arts, not sciences. Therefore the terminology employed is often inexact. For this reason the questionnaire incorporated the committee's definitions of all the terms employed by it, as, for example, "structure," "organization," "management," "administration," "line," "staff," "control," "financing," and numerous others.

We defined organization as: "The implied or expressed relationship between people working together toward the attainment of a common objective, including the expression of such relationships by organization charts, organization manuals, definitions of duties, and standard practice manuals."

We defined "management" as: "That part of organization which is primarily concerned with directing and coordinating the activities of the organization." We defined "administration" as: "That part of organization which is primarily concerned with planning and the development of policy."

Oliver Sheldon, who wrote a very interesting book called "The Philosophy of Management," defines "organization," "management," and "administration" in much briefer words. He says: "Organization is the formulation of an effective machine. Management gives that machine an effective executive, and administration gives it an effective direction."

Although organization, management, and administration are arts and not sciences, I have the firm conviction that they will eventually become sciences. There is every reason to believe so because of the rapid progress that has been made in the past 100 years. Progress of any kind, whether it is progress of groups of men or nations, or the progress of natural organisms, is based upon the companion principles of specialization and cooperation.

RESTRICTED

RESTRICTED

1031
Progress in specialization is almost automatic. Every living thing has what the biologists call its "daemon" or determining tendency, which forces it to specialize in order to survive.

Specialization, therefore, always tends to outrun cooperation. Consequently, cooperation becomes the limiting factor in attaining progress. The biologists, the paleontologists, and other students of that kind can give us countless examples of organisms that have failed to survive because cooperation did not stay in balance with the specialization of the cell units within the organism. The history of industries and of countries, also, is replete with many examples of failures because the cooperation was not maintained in balance with the specialization.

Cooperation is dependent upon the arts of administration, organization, and management. Or, to put it in a short term, it is dependent upon the art of administration, since by the definition that I used in the beginning, administration is that part of organization which is concerned with planning of every sort, including the planning of its organization and the modification of its organization to keep it always in a situation where the cooperation is in balance with the specialization.

The oldest and most primitive way of maintaining the cooperation of men is by fear and force. That is man's oldest way. It is not nature's way. In the 200 billion cell population of the human body the freedom and responsibility of the individual cell is astounding. Several books bring that out very clearly. Dr. Cannon's book, "The Wisdom of the Body," shows how beautifully organized our bodies are and what a very high degree of cooperation is obtained by freedom and responsibility of the individual units within the organism.

The most successful and the most enduring examples of good industrial organization are those in which organization, administration, and management have been used to obtain not only balance between cooperation and specialization, but to obtain that balance by giving freedom and responsibility to the individual--freedom with commensurate responsibility.

Notwithstanding the differences of opinion about how to organize an industry and the different forms that its structure may take, and notwithstanding the differences of terminology, there are certain common characteristics in the large enterprises.

One is the delegation of responsibility with commensurate authority. Some people who specialize in the study of this subject say that "delegation" is an understatement. It is the assignment of responsibility.

RESTRICTED

1032

"Delegation" implies that the delegating person could carry the responsibility himself. Obviously the industrial manager could not carry the responsibility of his medical staff. He has really assigned the responsibility. So it is with most responsibilities in industry. The jobs are so highly specialized that responsibility of the research engineer is assigned, not delegated.

Another common characteristic is the single line of responsibility. There may be some dotted lines on the organization charts, but these are usually an expression of cooperative relationships and not an indication of a double line of responsibility.

There is also a general recognition of the limitations to the span of control. Some executives may never have heard about span of control. But they have learned from practical experience that when one executive must coordinate more than six dissimilar activities responsible to him, he cannot maintain complete cooperation between them. Generally speaking, it is better to have not more than five.

Of course, if the activities are all similar, like squads of soldiers in a regiment, you don't have that problem; I am speaking of the coordination of functional activities each of which is different from the others. In organizing anything, a good rule to follow is: Divide at each level into the minimum number of dissimilar activities.

Another fundamental that affects all organization is that every activity, whether it occupies a fraction of a second or a lifetime, divides itself into three--the determinative, the applicative, and the interpretative.

When we are confronted with imminent danger, we first determine what to do to avoid it. Having determined what to do, orders go out into the nervous system and we do it. Then, when we get by (or don't get by but are still alive), we make an interpretation. We form a judgment as to whether what we did was right or wrong. The interpretation is then filed in the memory cells for future reference.

Our forefathers who organized the United States very wisely said: "We will have a government by the determinative, the applicative, and the interpretative functions." Some call it "checks and balances." Congress is the determinative branch; it makes the plans and expresses them in laws. Then we have the executive, or the applicative, branch which carries out the plans. The judiciary branch interprets the plans and their execution and decides what is good and what is poor.

The division into the determinative, applicative, and interpretative (planning, doing, and judging) will be found throughout all organization and in both the vertical and horizontal lines from top to bottom.

RESTRICTED

RESTRICTED

1033

If planning is mixed with doing, the planning will suffer because the doing is always more urgent. On the other hand the doer, the executive, who is required to make quick decisions, is inhibited from doing if he is inclined toward the meditative attitude required of the planner. The interpretative (judging) requires detachment from both planning and doing.

Judging is sometimes negative; it looks for what is bad and not for what is good. Of course, the most effective kind of interpretation is that which looks with equal objectivity and equal detachment for that which is good as that which is bad. Both should lead to improvement of performance in the future.

Another common characteristic we find in all industrial organizations--and we find it also in the Government and other nonindustrial organizations--is the separation of line and staff. A lot of confusion occurs about the terms, but to my mind they are rather simply defined. You can say that the line are those parts of the organization that are directly concerned with producing the product or service. They are the determinative, applicative, and interpretative functions. Staff are those parts of the organization that are concerned with rendering advice or services to the organization. Legal counsel is an example of the staff function. The advice of the staff sometimes becomes converted into orders from higher authority either by the approval of the higher authority or by the re-issue of part or all of it over his signature.

In the usual industrial organization, the chief interpretative function is vested in the board of directors; the chief determinative function in the president; and the chief applicative function in the executive vice-president or general manager.

Under the chief executive there will be a horizontal distribution into planning, doing, and judging; as, for example, engineering, which plans the product; manufacturing, which makes it; and sales, which interprets it. It is really the customer who is doing the interpreting and the sales organization is the mouthpiece of the customer. Under the treasurer will be grouped a number of staff functions such as the budget director, the chief accountant and the auditor, which are planning, doing, and judging functions within a staff group.

The usual way in which a small organization grows is by additions to product or additions to kinds of service. Good teamwork will be facilitated by consistent divisions of engineering, manufacturing, and sales by kinds of product. This also facilitates going into a decentralized organization if the company grows so big that this becomes advisable.

RESTRICTED

RESTRICTED

1084

The Harvard Business School at one time investigated the history of duPont to find out how it was that it suddenly adopted a decentralized organization and became so remarkably successful with it. It found that after World War I duPont found itself with a lot of money and an organization of very able men, but with growing losses on its postwar operations. The older members of the family were all for winding up the business. But the younger members said: "No. We think the trouble is that there is only one man who is responsible for making profits. We have plenty of money and plenty of good men, but we have only one man in this company who is responsible for making it profitable; and he is just overloaded. That is the president. Let us have a lot of people responsible for making the enterprise profitable."

So the idea of decentralization was put into effect. I think at first it was seven completely autonomous enterprises, each with its own head, an assistant head, and a complete staff of its own, and with complete responsibility for the profitability of that unit.

They set up, also, 10 staff units such as purchasing, plant engineering, and industrial relations, being careful to say that nobody had to use the services of those staff units. Of course, the staff units knew very well that if nobody used their services, they wouldn't last very long. So they set out to be very good at what they were doing. The operating departments soon learned the value of the staff services. In that way the relationships between the staff departments and the line departments became very cooperative.

Also, they established what they called, and still call, an executive committee. The executive committee is the planning group of the organization. There are no officers of the company in any operating position except the president and the treasurer. All the vice-presidents are in the executive committee. Every one of them is a sponsor for one or more units of the organization--staff or operating units. By "sponsor" they mean proponents or advocates of the units that they represent in the deliberations of the executive committee.

Within a few years the duPont Company had become so successful with this idea that it was able to buy a controlling interest in General Motors. It applied the decentralizing idea to General Motors with equal success. Later on, the duPont family (not the duPont Company) bought U. S. Rubber. And I was told that many well-informed businessmen said: "Now they really have a lemon! They can't do much with that one." But the same thing happened. By the application of this relatively simple plan, accompanied, of course, by a very enlightened attitude on the part of management--an attitude indicated by that word "sponsor"--they succeeded again.

RESTRICTED

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Another characteristic of duPont's and many other successful organizations, small and large, is the judgment of people by definite criteria. In the duPont Company every operating department is judged by a series of 10 charts; but there is only one figure that really counts. The others are just to find out how that one figure got there. That one figure is the percentage of return on investment. 1025

Nobody ever talks about organization without saying something about committees in an organization. Here in Washington we become well acquainted with committees. In this job that I came to a week ago last Monday I have spent half my time just sitting on committees--generally not saying much and not learning very much either. So I take a rather grim view of committees.

They do serve some useful purposes. They may be a good interpretative body because when it comes to judging, it is desirable to have more than one reaction. Or when important decisions or information is to be disseminated, the committee is sometimes a better medium than memoranda which won't be read. Or in some problems of coordination the committee is a useful thing.

In the survey of the "Structure of Large Enterprises," we found that organization charts are more prevalent than organization manuals. Almost every big enterprise has an organization chart or, rather, a series of charts; some have manuals. The resistance to manuals is that they tend to long definitions of responsibility and consequent cumbersomeness. If you define all the common responsibilities of groups such as engineers and foremen, then when you get down to the individual responsibilities, they can be defined very briefly, using not more than two or three lines.

Most of the enterprises we surveyed had manuals for standard procedures such as secretarial manuals, salary and wage administration manuals, and accounting manuals. In industrial organizations there are engineering manuals and inspection manuals or quality control manuals or something corresponding to that. Each one was adapted to its own organization.

There is a very considerable variation in the controls. We said in our questionnaire that we preferred to use the words "management reports" rather than "controls" because the comptroller, for example, in an organization doesn't actually "control." Such information enables management to feel secure in thoroughly delegating responsibility and authority.

In conclusion I will read three paragraphs of a commentary which we appended to our paper on "Structure of Large Enterprises":

RESTRICTED

RESTRICTED

1036

"The most primitive way of maintaining cooperation commensurate with the inevitable increase in specialization is by establishing arbitrary, unquestioned authority in the leaders and maintaining it by combinations of fear and incentives. The highest degree of cooperation is that derived from freedom of the individual accompanied by commensurate responsibility. To the student of organization structure the natural organisms have a nearly perfect balance of specialization and cooperation, and the cooperation is the result of a nearly perfect balance of freedom and responsibility.

'Measured by this standard, all man-made organizations now fall far short of what they might be. This survey of The Structure of Large Enterprises indicates, however, a growing awareness of the importance of obtaining cooperation by freedom and commensurate responsibility that comes with well developed organization structures, based upon the sound principles that have been developed and recorded by students of the subject and proven in practice by practical administrators and executives.

'The first responsibility of the leaders of any enterprise is the rendering of a public service of such a character as to insure the endurance and progress of the enterprise. To accomplish this objective the enterprise must be so managed as to (1) pay for the use of the capital employed, (2) modernize the facilities of the industry, (3) develop, utilize, compensate and conserve the abilities of its personnel in accordance with enlightened management standards, (4) provide for perpetuation of the enterprise by insuring financial stability, developing managerial talent, and striving to achieve optimum conditions in meeting the demands for its services.

'Viewed from a broad perspective, no enterprise can be truly profitable unless it assumes responsibility for human harmony and welfare of its personnel, efficient and socially valuable service to its customers, and participation in community welfare. This survey provides substantial evidence that good organization structure is an important factor in fulfilling these responsibilities."

QUESTION: Would you point out where you think the inspection system organization should come--whether in the production branch, sales, or otherwise?

MR. GILLMOR: In an industrial organization, which is what I am speaking about, inspection is, of course, an interpretative function. So it is always hard to say whether it should be in the factory or not; whether it should be an independent function. My own opinion is that inspection should be within the factory organization. It is the factory manager's interpretative department.

RESTRICTED

RESTRICTED

1087

There is another interpretative function in the manufacturing organization--that is testing. The engineering organization is not through with its job until it has tested that which is made. So testing is an interpretative function under engineering.

QUESTION: If I understood you correctly, you draw a line of demarcation between manufacturing and inspection. In other words inspection gives the plant manager information as to how well he is doing, including the final inspection of the product; whether or not the end product comes up to the standards of production; and that information enables the management to direct and control the manufacturing process.

MR. GILLMOR: That is right. I have in mind my own organization-- or the one I am most familiar with--The Sperry Gyroscope Company. I was the head of that company for 15 years, where we were dealing with very complicated products that were in continuous development. There we found it best to organize in the manner I have described, and to make a separation between inspection and test, and to put inspection under the vice-president for manufacturing.

QUESTION: There is one word which applies to an organization which the military like to use a great deal and which some other people think they could do without--the word "command." Would you discuss the relative merits of the two points of view with reference to the complex military organizations that we have now, most of which are noncombative in nature?

MR. GILLMOR: It seems to me that the word "command" is very properly used in the military service, because it is a very highly disciplined organization. Quick decisions must be made very often. Morale depends a great deal upon leadership and the exercise of command. The concept conveyed by the word, it seems to me, comes naturally. I don't believe you could use it in industry. It wouldn't convey the relative association of ideas. I think that in industry "direction," "management," and "administration" are better words to use.

QUESTION: I understood you to say that the doing and the planning should be kept quite separate. There seems to be one school of thought that the further you keep those two apart, the less practical your planning becomes and the more there is objection by the doers to what has been planned for them. Would you comment a little more on that?

MR. GILLMOR: That is a problem of administration. You tend to separate the functions naturally because, although they are at the same level, you must do them at separate times, unless you just extemporize from moment to moment as you go along.

RESTRICTED

RESTRICTED

1028

Of course, the two must work closely together. The planners' ideas are tested by the doers and judged by whoever is doing the interpreting. In that way the planner is continually kept in touch with the doer. But the planner must be free from pressure from the doers and the planner cannot judge his own plans.

So I think that it is a very natural concept to keep them all working harmoniously together; that is a problem not only of organization but of administration.

QUESTION: Would you follow up just a little bit more that part of your answer about the integration of planning and doing with the interpretative? It seems to me that it is a problem where the top manager comes into the picture. I think the relationship there is one that is of extreme interest to most of us.

MR. GILLMOR: I will take an example in industry, but I think the same kind of thing would apply to the military or anywhere else. We will say that engineering is planning. Now, engineering soon finds out that it is not doing a good job if the factory can't make it. If they put down on some plate "This must be flat," they will have to plan something that is feasible to do. They can't say "This glass face plate for this instrument must be free from bubbles" because there isn't any glass that is free from bubbles.

I mention little things like that, but it gets into more and more complicated things, where it is very important for the research and development man to keep in touch with the designer to see whether he is developing something that can't be put into practicable workable design. It is very important that engineering frequently consult with research and development on its design and keep in touch with the manufacturing organization, to see that it is turning out specifications and drawings for something that the manufacturing organization can produce. Countless examples come to mind where they just naturally work together.

On the other hand the coordination and cooperation of judging with both of the others--engineering and manufacturing--also is just sort of automatic. You get it in the military service and you get the same thing in manufacturing. In an organization where you get that atmosphere of teamwork, everybody is anxious to find out how the things they are doing are working. They not only listen to the fellow who comes back from the field, but they cross-examine him to get every possible bit of information.

So it seems to me that where there is even a moderate degree of enthusiasm in a common endeavor, each of those basic elements--planning, doing, and judging--must work closely one with the other, and coordination and cooperation becomes automatic.

RESTRICTED

RESTRICTED

1033
COLONEL CAVE: I would like to ask a question about something that I have pondered on many times on procedure right at this point. Very frequently in the Ordnance Department a new gadget of some kind comes up, and there is always difficulty in getting it from research and development over to industry and to the field service and then out to the field and the maintenance. Would you comment on the advisability or practicality of taking a project engineer who would work on this thing from the beginning and go to each successive group and stay with it all the way through, so that you would have that tie across those organizational lines?

MR. GILLMOR: Yes. Part of the coordination would be accomplished by just what you say--if this project engineer should carry right on through, should follow right on through, and see how it works. Naturally, he is going to have to pry it out of the various departments as he goes along, especially if it is a complicated thing, because they always tend to go just a little further and make it a little better. You will never get it out unless somebody says that it has to be out by a certain time. You will have to get it out in the field and tell from experience what modifications need to be made.

So I think that your suggestion is a very good one--to get a project engineer and make him responsible for following it through and freezing it at some point from time to time.

QUESTION: You have been speaking mostly about the older and the more tried organizations, such as duPont and General Motors. What can you offer on the organization and management of the more successful and optimistic corporations, like Jack & Heintz? How were they set up? Do they employ the same principles used by the older organizations?

MR. GILLMOR: They employ the same principles, with perhaps some more mysterious terminology and other things in the way of administrative practices. And that is all right if you get high morale and enthusiasm in that way.

That is a very fine idea, but the results are to a considerable extent dependent upon the enthusiasm and the drive of a single man, like Bill Jack. It works fine as long as he is there.

It is not good for an organization to be dependent upon a single man, life being as uncertain as it is, although the enthusiasm of a single man can make up for a lot of defects in an organization. If you can have good organization, and enthusiasm on top of that, so much the better.

QUESTION: You mentioned earlier that the comptroller of an organization does not control but, rather, he provides information to the manager upon which decisions are made. One of the most recent activities

RESTRICTED

RESTRICTED

1030

in the military establishment is the controller. We find him at all levels in the military. There are many officers in this organization, I am sure, who feel that the controller does in fact control; that he does have a great influence upon the purse strings, manpower allocations, and such things. Would you be good enough to give us the benefit of your experience and say something about just how far the controller perhaps should go in an organization, particularly on the military side?

MR. GILLMOR: I know what you mean. You see that situation in the government comptroller. But take the Comptroller General as an example. He doesn't personally control. He controls through Congress, through fear of congressional investigation, through fear of docking your pay or something.

When I was in the Maritime Board the Comptroller General's Office criticized the amount of certain subsidies. The action taken was the action taken by Congress by a committee of Congress.

But, of course, the controller, through his information, can exercise a kind of moral power through the information that he provides. He is not actually controlling. He is providing information to those who can control. If the information reflects to your credit, that is fine; but if it reflects to your discredit, you fear it.

QUESTION: This perhaps follows the previous question a little, but where in your organizational function do you think it best to put the analysis of operations? There has been a trend in recent years to fit that into the controller in some military organizations. Where do you think it fits best from the industrial standpoint?

MR. GILLMOR: From the industrial standpoint I think the best place is the first assistant to the chief administrator. By chief administrator I mean the planning officer of the organization, usually the president; or, where you have a full-time chairman of the board, the assistant to the chairman, if the chairman is doing the planning for the organization.

Now, "the assistant to" is not a staff officer in my own concept of that function, not if the planning officer is to be successful. He has no responsibility and no authority of his own. He is a part of his principal's position. That requires that an effective assistant must be very objective and must work as a part of his principal, with the full knowledge of his principal.

The Sperry Gyroscope Company, which I refer to because I am so familiar with it, grew from an organization in 1938 of some 1,800 people to an organization in 1943 of 33,000 people, with responsibility

RESTRICTED

1031
for 3,500 subcontractors and the engineering responsibility for 20 contractors who had been given subcontracts for producing certain products of the company. This would not have been possible without a staff assisting the chief planning officer (the president) on matters of organization, standard practices, and communication.

That "assistant to" job, incidentally, was filled most creditably by a former officer of the Air Force, who went back into the Air Force and was killed. The planning organization grew to an organization of 300 people under the "assistant to." But it was, nevertheless, a part of the president's responsibility. Whether it would be effective in a military organization or not I don't know.

COLONEL CAVE: The officer Mr. Gillmor refers to was Fred Castle (USMA Class of 1930, later Brigadier General, Air Force, killed in action).

MR. GILLMOR: He was a wonderful fellow. There are very few like him. He was ideal for a staff position of that kind and would, in my opinion, have become the president of the company.

QUESTION: I would like to carry back to your tribute that you paid to Jack in Jack & Heintz. I wonder how much tribute should be paid to a system which permits industry to pay a new manager 200,000 dollars a year. Would you care to comment on that?

MR. GILLMOR: It is a little easier to get enthusiasm if you can throw money around.

COLONEL CAVE: Thank you very much, Mr. Gillmor, for a splendid lecture.

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