

RESTRICTED

ORGANIZATION PROBLEMS IN INDUSTRY

4 February 1953

1289

CONTENTS

	<u>Page</u>
INTRODUCTION--Brigadier General L. J. Greeley, USA, Deputy Commandant, Education Division, ICAF.....	1
SPEAKER--Mr. Lawrence A. Appley, President, American Management Association.....	1
GENERAL DISCUSSION.....	12

Publication No. L53-90

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

RESTRICTED

RESTRICTED

1290

Mr. Lawrence A. Appley, President, American Management Association, was graduated from Ohio Wesleyan University and did graduate work at Ohio State and Syracuse Universities. Following this he served as an instructor at Colgate University. He has an LL.D. degree from Ohio Wesleyan University and from Bethany College. Mr. Appley started his business career in 1930 as personnel manager of the Buffalo Division of the Socony-Vacuum Oil Company, Inc. Following that, he served as educational director for that company in both its domestic and foreign operations, as vice president for personnel and as a member of the Board of Directors of both the Vick Chemical Company and Montgomery Ward and Company. He is also a Trustee of Ohio Wesleyan University and a Director of the Harris-Seybold Company. During World War II Mr. Appley served as expert consultant on civilian personnel to the Secretary of War and later as executive director and deputy chairman of the War Manpower Commission. In 1944 he received the War Department citation for meritorious civilian service and in 1946 was awarded the Medal for Merit by the Congress of the United States.

RESTRICTED

RESTRICTED

1291

ORGANIZATION PROBLEMS IN INDUSTRY

4 February 1953

GENERAL GREELEY: Organizational problems of industry, particularly an expanding industry, are highly complex and ever-changing. You are all aware of this. That is not a profound statement but I think it is something we should keep in the forefront of our minds. For this reason the importance of organization during mobilization is clear and self-evident, I believe.

Our speaker today, Mr. Lawrence A. Appley is President of the American Management Association, one of the foremost organizations in this country which has concerned itself with the study and analysis of industrial management problems. For this reason Mr. Appley's experience and knowledge of industrial organizational problems eminently fit him to discuss this subject with us. You are all familiar with Mr. Appley's background, having read his biographical sketch, I am sure, so I will not go into it. I think the time belongs to him rather than to me; so, without further ado, it is a great pleasure indeed to present to the Industrial College Mr. Lawrence A. Appley.

MR. APPLEY: General Greeley, members and guests of the college: It is a great privilege and honor to have the opportunity of meeting here with you. I must admit I have looked forward to this opportunity, having talked with many of my friends who have had the privilege of meeting with you at various times on various phases of management.

However, I must say I am a bit humble as to the assignment of discussing organizational problems. Colonel Cave talked to me from time to time about this assignment. I told him I certainly did not want to appear as an expert on the subject of organization. My job is more like that of some of the staff here of trying to find the experts and make them available to some of our members. To be here at a college of military people when practically all that we are using today in terms of principles of management, skills of management, and philosophy of management originated with the military decades and centuries ago before there was ever any concept of the industrial system so to speak, is a difficult assignment.

I must admit at the very outset, so far as industry itself is concerned, we are just beginning to realize what some of the teachings of the military mean in terms of the industrial organization. But as I am here and have accepted the assignment of talking about organization problems in industry, I can't help but feel a little bit like the inebriated gentleman who got restless in the hotel in New York, wandered out into the streets, and found himself on the Brooklyn Bridge. He stood there looking down at the East River when a police car rambled up. Deciding that he was about to become a suicide the policeman asked him

RESTRICTED

RESTRICTED

1292

what he was doing. He pointed to a yellow spot in the water and said, "What is that?" The policeman said, "That's the moon." The man said, "The moon? How the h--- did I get way up here?"

But let me give you some of my impressions in relation to some of the problems in organization in industry. I would say the first problem right now facing industrial and business management is the acquiring of a philosophy of organization. That is the first and most immediate problem--a basic attitude toward organization building, toward organization structure, and a comprehension of its place in the whole management picture.

That may seem rather strange to you and I myself sometimes try to analyze why is it that the military have from the very beginning of time been such students, and developers, of principles of management and organization while in other types of organization we have been so backward in becoming conscious of the need for an orderly approach to the activity of management.

Well, I don't know that I have the answer, but at least I have an answer which satisfies me to a certain degree. I believe in the military function there are more jobs which have to be performed exactly than you will find in industry and business. You either hit a target or you don't; the only way you can learn to hit the target is through practice and the development of skills.

I use that word target in a very broad sense. But I do believe there are more exact functions to be performed by the military which are either performed correctly or incorrectly and in which there are very small margins for error. This means you have been deeply conscious over the centuries that men have to be trained--they just have to be. There isn't any question about it.

You have a man who comes into the service and you know exactly what he must be trained to do. You know the results he has to attain. You know he can attain those results only through training. That is not exactly so in industry and business. It is possible for people to come into certain jobs and to be exposed to the performance of those jobs by other people and do them with varying degrees of effectiveness. In many instances, the individual sets the standard for the job. That can even relate to machine performance. The machine performance on the job can vary according to the individual who operates it and the mechanical ability which he possesses. Therefore, you do not find as much conviction on the part of some industrial and business people as to the need for formal training that you do find in the services.

Please believe me, I am not saying these things to compliment the audience to which I am speaking. I happen to believe that this is one of the fundamental reasons why we have not studied and have not trained in management to the extent that we are now finding it necessary to do.

RESTRICTED

So we do not have a very definite conviction or philosophy and we must develop it.

We have to understand, to begin with, what management is; what our philosophy and attitude toward the job of management is. What is the function of management? Basically and simply it is getting things done through the efforts of other people. You have heard that so many times, but let me give you a broader, more inclusive definition.

Management is organizing physical and human resources into dynamic units which attain their objectives to the satisfaction of those served and with a high degree of morale and sense of attainment on the part of those rendering the service. There is a broad definition of the management function and it is basic to the philosophy I am talking about which is essential if you are going to create the climate in which good organization building can take place.

Moving on from that definition, we discover that two of the basic functions of management are planning and controlling. When we begin to study the functions of planning and controlling, we get over into the media of control and we discover that one of the most important media of control is organization structure. Then we begin to define what organization structure is. Organization structure is the tool that a manager has to make it possible for people to work together in groups as effectively as they would work alone.

That in itself is a philosophy. It is a basic attitude. The executive, manager, or supervisor who believes and understands that management is getting things done through other people, organizing human and physical resources, and that it divides itself into planning what it is you want to accomplish, and setting up controls so people follow the plans; that one of the basic media of control is organization structure; and its purpose is to help people work in groups has a basic and sound appreciation of organization structure. He is not the executive who develops a very beautiful organization chart which he hangs on the wall and when asked about his organization, says, "There is our organization," without any comprehension of what it is or what he could do with a proper philosophy of what organization is and its proper place in the whole function.

The man with the ragged and dirty organization chart that is used by him every day makes it just as much a part of his work as the engineer does a blueprint. It is a tool by which he directs the efforts of his people and establishes the functions and relationships which are essential to helping people to work together in units so they can be dynamic in the attainment of their objectives.

You may say, "This is old stuff. There is nothing new about this." That is true. Yet if you were to sit down and ask a group of executives today--middle, top, or first echelon managers--for a clear idea of

RESTRICTED

1294

organization structure, you would find arguments as to the value of any formal organization structure at all. One executive told me within the past six months, "I have no organization structure. We never replace an officer in our organization. We leave the job vacant until we discover someone in the organization who is officer caliber and then we promote him and he is permitted to make of the position whatever he cares to make it." His people say to you on the side when he isn't present, "No, this isn't an organization. That's right. This is a mob." And how it functions at all is a matter of amazement, but it does and makes a profit and pays dividends. But they are heading for difficulties.

On the other hand another large organization, one of the largest industries in this country--if I were to name it, you would be surprised--drew its first organization chart two years ago, the first organization chart it ever had, and is now, under a new administrator, setting up all the details and the functions for developing an organization structure as it should be established in an organization of that kind.

All of which adds up to this statement of the problem: It has been possible for businesses and industries to function with some degree of success without any particular philosophy about organization or concern about it, but that day is rapidly disappearing, and the problem today is, first, the development of a philosophy at all echelons of management which makes building an organization structure a vital, daily performance of those people who are responsible for the efforts of others.

The second problem we find in industry today is that of organization clarification. When philosophy has been developed, the importance of organizing has been brought to focus, then how about the activity of clarifying the organization itself? This is a real problem because people are not by nature orderly. If they have been permitted some freedom of action in an organization, they immediately begin to shy away from job descriptions, charts, activity analyses--from an orderly approach which they begin to interpret as a limitation of initiative. They begin to interpret it as a restriction of the individual and we immediately run into a resistance.

I can answer it in this way, and it is the way it is being answered in business and industry today: When an individual joins an organization, he must immediately accept the fact that his individual initiative is going to be restricted. If he doesn't accept that, he has no business joining an organization. That is the purpose of an organization--to put people into teams with specific responsibilities, specific functions to perform, and if they are not willing to accept their responsibilities and the obligations that go with them and permit the other fellow to perform his responsibilities, let them continue as individualists in their own way of life. They don't belong in an organization because an organization does restrict individual initiative and individual liberty, but it also gives it an opportunity to flow in specific channels and along specific lines. Instead of fluttering all over the place like a butterfly or a

RESTRICTED

humming bird, it has a specific area in which all initiative and individual personality can develop within the limits of the assignment. But that is the basic concept of organization and we might as well accept it and realize it.

Chester Barnard, former president of the New Jersey Bell Telephone Company, some years ago pointed out the necessity of understanding the difference between formal and informal organization. Formal organization is what can be clarified. Informal organization, which you cannot clarify, is the human relationships that exist--the opportunity for individuals to see things that should be done that nobody else is doing; but, at least through formal organization they know whether it is someone else's responsibility.

If you have a job description that doesn't say anything in it about fire prevention and you are walking down the hall of this building and see a waste basket raging with fire, you are not going to say, "That is not my responsibility," and walk on by. You will do something about it. That is informal organization. There is no doubt that informal organization works smoothly if it has been clearly clarified. All this writing of job descriptions, making charts, setting up requirements, establishing relationships is a problem because many people in business have not been trained that way. They haven't been brought up that way. They have a natural resistance to any change or restriction of their particular activity although 90 percent of the time, after it has occurred, they will tell you they are much happier than they were before, far less frustrated, and they find themselves more effective in their jobs.

The next problem is the problem of centralization versus decentralization. Here is an additional problem in business and industry. Do you centralize or do you decentralize?

Not so long ago I was flying out to the Pacific Coast and struck up an acquaintance with the gentleman in the seat next to me. He was looking pensively out the window at scattered ranches. Here was a cluster of ranch house, barn, and so on, then you went on several miles and there was another cluster; several miles more, another one. He said rather heartbrokenly, "These fellows must have been in the retail business." I said, "What do you mean by that?" He said, "They are out here trying to get away from it all." I still wanted to pursue what it was they were trying to get away from. He said, "As you know, some retail businesses are highly centralized; some are highly decentralized. I happen to work for one of these highly centralized, yes sir, no sir, ulcer type of organizations."

But here is the whole problem: When do you centralize? When do you decentralize: Under what circumstances? And to what extent? One of the reasons it is a problem is that so few people seem to understand what is involved. You never can decentralize accountability. Some

RESTRICTED

1296

people say, "I can't decentralize authority; I can't decentralize responsibility, because I am always accountable."

The board of directors of an organization is accountable to the stockholders for every last, living thing that happens in the company. Do you believe a board of directors can personally review and operate everything that goes on in the company? They meet every month or every two months. They get a report. They have confidence in their management. They delegate authority and responsibility. They haven't delegated accountability, can't and never will. The president can delegate whatever authority he wants to; he can delegate any responsibility he wants to; but he can never delegate accountability.

So the fundamental problem is: Am I willing and have I enough faith in somebody else to say to them, "Here is my responsibility; here is my authority; and even though I am accountable for what you do, you go ahead and do it. I have enough faith in you to handle it all right." That takes a lot of courage. It takes faith in the individuals who are working for you.

A lot of that is beginning to take place. Just yesterday I talked with a director of an organization which has now permitted the president of the company to pass upon salary changes of people making up to 50,000 dollars a year. Previously his authority was for 10,000 dollars a year. He is in the process of breaking that down, delegating up to 30,000 dollars to a certain level; 15,000 dollars down to a lower level; and so on.

I happen to be a director of a company that a few years ago made a study of this question of delegation of responsibility or decentralization. One situation we discovered was this: The superintendent or manager of one of our big plants is a vice president and director of a company and there was a procedure on the books which said that any change in salary which he wanted to make for any individual receiving more than 5,000 dollars a year had to go through headquarters. Therefore, he made a recommendation to headquarters and there were 14 different people in headquarters who had to review this recommendation.

Further study indicated that no individual who was supposed to review it ever did. It was in every case reviewed by a secretary or a clerk or an assistant, the highest paid of any of them receiving 4,800 dollars a year, and that in no case in the last six years had any recommendation of his ever been turned down. Who was going to turn down a recommendation of the vice president or director? If you are making 4,800 dollars a year, you are not. That was discovered. There was the situation. Further study indicated that the great amount of red tape that is set up, the controls that are set up trying to keep people from making mistakes cost more to operate than the mistake could ever cost.

We had one specific illustration not so long ago where a company studying this particular problem had certain controls and red tape set

RESTRICTED

up around its purchasing agent to make sure he wouldn't make an error. Here were all the controls through which he had to go before he could sign a contract for the purchase of merchandise.

The study disclosed that the greatest error he could possibly make was 100,000 dollars, and as soon as he made it, the error would be discovered. It couldn't be hidden very long. Yet it cost 172,000 dollars a year to operate the controls that were preventing him from making such a mistake. So many times all these controls, all these requirements to prevent people from making errors are more costly and time-consuming than if you let the error occur.

Part of the whole problem of decentralization is unwillingness on the part of management to permit mistakes. You can't operate an organization effectively without mistakes being made unless you want to become completely crop bound. You have to permit mistakes. You have to allow for mistakes. The great tragedy is when the same mistake happens twice. That is what you want to look out for. But no organization can operate with free-swinging efficiency and make progress if it is so tied up that it is not permitted to make a mistake and the controls are stringent enough to prevent them.

So here is that whole problem, centralization versus decentralization. How far are you willing to move? What are you willing to do? It is a big problem of industrial management today because of its tremendous growth and the rapidity of that growth. They are faced with it and they are going to have to do something about it, and they are doing something about it.

The question of centralization versus decentralization leads us into staff and line versus functional operation. Staff and line operation is not new to you people. You certainly know what I am talking about when I speak of functional organization. Yet it has been my privilege to sit in on discussions on the subject with executives who would not know what you are talking about. It seems incredible. This is not criticism. It is just the nature of our growth, the we have grown--like Topsy.

Remember again that most men in management have not been trained as such. Men do not become officers in the military services until they have been trained as officers. Very seldom is a man trained to be an executive or a manager until he is put into the job. Friday morning the superintendent comes in and says, "Joe, on Monday morning you are going to be head of such and such a department. You are going to be foreman." Saturday evening the boys take him out for dinner. Monday morning maybe some thoughtful girl in the office puts a rose on his desk. Now he is a foreman. Now he is manager. Absolutely nothing he has done qualifies him to be foreman or manager except technical knowledge of what he is going to supervise. That is the background. Therefore you find men in management who do not know what you folks are studying.

RESTRICTED

1298

There is no doubt about it, in management circles one of the most serious problems is the lack of appreciation of the relative value between line and staff positions and one of the greatest problems in business today is the continuous battle between line and staff--which is the more important.

One executive showed me an organization chart a few years ago that was quite peculiar. He was going to solve his problem. The chart had line executives, divisions managers, subsidiary presidents on the first line under the president. Down on the next line were the staff officers. He said, "That'll teach them." I first asked him, "How is that going to teach them?" He said, "I have the staff officers below the line executives." "You mean the higher they are on the chart, the more important they are in the organization." He said, "Yes." My observation was that "Your secretary, just below you on the chart, is quite an important person, isn't she?"

No organization chart can show the importance of a job. All it can show is the relationship between jobs. But until management accepts the philosophy that both line and staff have a function to perform and they are equally important functions that both have to be performing and there is absolutely no differentiation in value between the two, you will never settle the problem of staff and line.

Gradually we are beginning to come to the realization of the nature of the line function and the nature of the staff function and the equal importance of both. The line can't operate without the staff and there is no use for the staff if there isn't any line. The function of the line is to perform the service, put out the products, and do the job for which the organization is in existence. It is just as clear as that. Those people who are identified with doing the job that the organization exists for are the line, of course, and all the other parts of the organization that serve the line in the performance of that function become the staff.

This is the industrial interpretation and I am giving it to you from that standpoint. As soon as they get that kind of concept, this problem begins to clarify itself. When you get into that kind of discussion, you are led immediately into the next problem, the problem of chain of command.

The chain of command as a problem that is confronting industry a lot today. How far is the commanding officer from the first-line troops? How far from the president is the supervisor or operator in the shop? Through what number of levels do things have to pass in order to get action? The fewer the levels, the more effective the organization.

I was in the oil business years ago. This occurred. There was a salesman up in Portland, Maine, who discovered a location where he thought if there could be a service station it might be a very good

RESTRICTED

RESTRICTED

1299

outlet. He got a picture and a diagram of the property, a price on the property, and a market analysis of the situation to see what the property could produce. He made up a complete recommendation according to all requirements and sent it into the district office. The district officer, the liaison man in the district, and the district service station operator all went out to look at the property. They thought it was pretty good.

Then the recommendation went into the division. The men in the division headquarters all went out to look at the property along with the engineer, and they picked up a couple others along the way. They thought it was pretty good.

From there the recommendation went to Eastern Marketing Headquarters. They didn't need to look; they studied. They wrote memo's. They asked questions. They got answers, not only to the letter on the original project, but they got more elaborate answers and they began to build up from desk to desk and office to office.

From Eastern Marketing Headquarters it went to the marketing headquarters for the whole country and to the Budget Committee of the board. From there it went to the board of directors. The board of directors looked it over, examined it pretty thoroughly, and approved it, and returned it. When it got back to the salesman in Portland, he wrote a memo saying, "Sun Oil bought the property and built a station. It has been operating profitably for the last six months." That is exactly what happened. That taught us a lesson so we began to reduce command levels in order to become a more effective and dynamic organization.

That is a very serious problem. The minute you set up a job, the job acquires barnacles like a ship. When you appoint an executive, he has to have an assistant, who has an assistant. You begin adding levels and then have to cut them out ever so often or do something which keeps them from becoming established.

The next problem--moving on from this problem of chain of command--is span of control. That is bothering a lot of people today. How many individuals should an executive directly supervise? How many people should he have on his staff? One of the most serious tragedies that can occur in an organization is when the boss is so busy with everybody else that a member of his staff can't get in to see him. Yet it is very common. The boss is so busy with customers, so busy with VIP's, so busy with community affairs and a lot of other things, and too busy to see his people who want to learn from him, who want to discuss policy with him, or get help. That is what he is supposed to be doing basically--directing his staff, the people who work for him.

Some people put numbers on the span of control. Some authorities say that span of control is 10 or 12. I don't believe there is any fixed figure. I think the only answer to span of control is, how many

RESTRICTED

people can you give the time they need to do the job that they have to perform? So they are beginning to analyze this problem from that standpoint--how many people can an individual actually give sufficient attention to for them to perform their jobs as they should be performed.

That is quite contrary to a concept which I call "The chair is occupied." There are some people who seem to think that when you put a person in a position, the mere fact that the position exists and the man is there, that is all right; everything is doing well. You can't get by with that. What kind of man is in the chair? What kind of job is he doing? The mere fact that the job is filled doesn't get the job performed. And the boss is the only person who can determine what kind of a job he is doing and what should he have in order to do better? What kind of help does he need from his immediate superior? So span of control is governed by how much time does a man have for the people who work for him.

The next problem--a most important one--is manning the organization. We will assume your philosophy is correct. We will assume you understand the importance of the organization and organization structure. You are clarifying or have clarified the organization. You have determined how decentralized you want to be. You have worked out the problem of line and staff or functional organization. You have determined span of control and chain of command. Now how do you man the organization?

This happens to be the question to which industrial and business management is now devoting its greatest attention. Of all the subjects that are coming up today in business and industry, this is number one. The American Management Association happens to operate through eight divisions. We have Marketing, Manufacturing, Finance, Office Management, Insurance, Packaging, Personnel, and General Management.

The divisions are headed by volunteer councils, men who are leaders in the activity, and they in turn are chairmen by a leading executive in that particular field of activity. That council surveys the membership as to the problems they want to discuss at conferences and seminars. In everyone of these eight units, the number one subject is management development, the development of management executives, because apparently there is a very serious need existing today.

Out in Los Angeles two weeks ago at our General Management Conference where we discussed economic outlook, how we will get along under the new Administration, automation, and so on, questions of that kind, all one day was spent, with the largest audience that attended, on the techniques and methods of management development, manning the organization.

Many of you know what is going on at the universities and colleges as a result of the requests and demands of industry and business. Harvard Business School has had this 13-week course for years, where men just

RESTRICTED

1301

like yourselves in industry and business, your ages, go back there for 13 weeks. You know about the Sloan Fellowship at Massachusetts Institute of Technology where executives of 30 or 35 who have established their ability take courses of one year. Executives move their families to Cambridge for that year. Columbia established its course at Arden House last summer--six weeks. This year Stanford began a nine-week course. The University of Toledo is about to organize something. The University of Rhode Island has a committee which is trying to determine how to meet the demand by management people for some help in management development.

I may sound critical of management people in talking to you folks who know so much about these things. Let me say that the most hopeful sign is that management people are very conscious of this, and they are trying to do something about it. Why? They are suddenly awakening to the fact that management is an activity. It is unlike any other activity. It is a profession; it is an art; it is a science.

There is a great body of know-how available. There are basic principles that have been discovered to be true. There are certain qualifications required. There are certain skills to be used, certain tools available. We are just about at the point where society was many years ago when it was accepted that clerking in a drug store or assisting in a doctor's office was not adequate preparation for a doctor. We are beginning to realize that mere exposure to the management situation is not adequate equipment and training for a manager. So we are beginning to go back to school and study.

What causes all this? The increasing complexity of the management job. The President of a subsidiary of one Standard Oil Company told me recently that his subsidiary has greater capital assets, greater sales, more employees, and makes more profit than the entire Rockefeller oil empire made at the time John D. retired. We think of the Depews and Vanderbilts as heads of great empires and they were in their day and their times; but, they were operating small segments of today's organization responsibilities in business and industry.

Let me close with this one observation. Having pointed out some of the problems in industry, some of the activities that are going on in industry, and the interest being shown, may I submit my own particular belief. I believe management is the same wherever you find it--the principles, the skills, the tools of leadership are the same anywhere, in the military, in business, in an educational institution, in a hospital. I happen to believe that a man who can manage can manage anything; if that was not proved during World War II, then I don't know what was.

It is a great privilege to stand here talking with a group of management people who, I think, are dealing with exactly the same problems and principles that we are dealing with in industry. Thank you for your patience.

RESTRICTED

RESTRICTED

1302

QUESTION: Mr. Appley, will you kindly elaborate on what purpose the comptroller concept has in industry, not strictly financial but from the manager's viewpoint?

MR. APPLEY: I can answer that best by saying the comptroller concept, the comptroller function, is rapidly growing in importance. For a long time the comptroller was thought of solely as a record keeper, but as people in industry and business are becoming more interested in what management is and in making a study of it, they are discovering that one of the very vital factors is control--human controls, financial controls, production controls. So the control function and the comptroller as such are certainly growing in importance continually.

QUESTION: Normally we look upon authority as being delegated downward. There are some who believe authority is really delegated from the bottom. Would you care to give your views on that?

MR. APPLEY: Well, I can give you my views on it. I don't know whether they match up with those who have the concept you are talking about. My immediate reaction to the question you propound is that authority does not stem from the position alone. The man in the position must be in command, which means that he has the mutual respect and confidence of his organization. The mere fact that he is in the position does not give him the essential authority he needs to get out the kind of job for which he is held responsible. The authority actually comes from the acceptance of him by his organization.

One of the finest statements I have ever read on that is by Rear Admiral Arleigh Burke in a pamphlet he wrote some two or three years ago--published by the Naval Bureau of Personnel, called "Discipline in the U. S. Navy." I presume all you Navy people have seen it. The whole essence of it is that being in command means your acceptance by your organization. He goes on and explains how to get that.

George L. Clements, President of the Jewel Tea Company, has a device which he uses dramatically and purposely. The organization charts are upside down. He has the board of directors on the bottom, then the president, all the way up to the workers on the top. He does it simply to dramatize to his whole organization that his management people are the servants of those who work for them, and that they get their authority, their reputation, their position, and their confidence as the people they supervise grant it. It is a very fundamental point.

QUESTION: There is one problem in particular that I would appreciate your comments on, that is the balancing of the organization that you would like to have against the people whom you might have available to do the job. I have usually found that you have to shift these blocks around, take a little bit away from this job and add it to that one, to fit the abilities of the people you have available to you. Then you

RESTRICTED

find you have somebody coming down from up top and saying, "Don't ever do that. Those blocks are sacred." I wonder if you would care to comment on how you would balance that problem properly.

MR. APPLEBY: That is the 64-dollar question. I'll give the purely theoretical answer first and then the human answer to which you are referring. The theoretical answer is that you should build people to jobs and not jobs to people. Actually you can't do that. You do have to adapt the job to the capabilities of the people you have, but I won't accept it that coldly because I do not accept that people are as incapable as they may appear. I think there is a lot that can be done to improve people and I refuse to give up hope.

I know a lot of people whom others think are incompetent or not up to what they would like to have them be. That becomes a matter of discussion for everybody else except the individual. He is never told. You find an executive in a job who is a problem to everybody but himself. Nobody talks to him about it.

I left a meeting in New York where 60 companies were discussing methods for this evaluation of management. In essence the formula is, first, a very thorough appraisal of just exactly how competent the person is. The appraisal is done on a group basis, not on an individual basis. Three or four people get together in a conference and arrive at an appraisal of the individual whom you are trying to evaluate. The appraisal is made on the basis of his performance, the results he is getting in specific terms, the methods he uses, his qualifications for the job, his greatest weakness, his greatest strength, and his potential. Then, what are you going to do about him? Are you going to leave him on the job? If so, what are you going to do to improve him? What he needs is help in something tangible as to how to improve.

If you are going to take him off the job, will you promote him or demote him, or move him to some job of equal classification? Will you pension him and, if so, is the pension adequate?

Basically, to answer your question, it is not good to have to adapt your organization to people. Practically you have to because of human frailty. Do not accept that a person is not as good as he looks until you have exhausted every possibility of making him as good as you would like to have him. But give him more to do. They do respond to it.

I must admit and I do admit that in the last analysis if you have an individual in executive responsibility and you just can't get him to perform the job, you will have to face the issue of taking him off it. If that job has to be done, it has to be done. If it is a vital job, you will have to get him off. That is the number one decision.

Do what you can with him. We are discovering in business and industry what we didn't believe was possible years ago: it is quite

RESTRICTED

1304

possible to demote an executive and have him happier than he was before, and that is being done. There are many, many illustrations. It all depends on how it is done.

CAPTAIN ALEXANDER: Mr. Appley, could you tell us something about what industry is doing or has done with respect to participation of employees in management, these movements along the line of McCormick and Company, and how that fits into the organization?

MR. APLEY: There is a great deal being done along that line. A lot should be done that hasn't yet been done. Certainly a great deal of research is going on in the field.

I don't know how many of you know of the McCormick plan which was just mentioned. Charlie McCormick, President of McCormick and Company, spice manufacturers in Baltimore, is now celebrating the twentieth anniversary of the Multiple Management Plan which in essence is, for every managerial committee and group there is, a junior group, starting with a junior board of directors. Much of the agenda of the senior board is made up by the junior board. Some of the top officers today are men who were originally members of junior committees--junior marketing committee, junior manufacturing committee.

Did you have Don Mitchell, President of Sylvania Electric Products, down here?

COLONEL CAVE: Yes.

MR. APLEY: Did he tell you about his Profit Committee? The purpose is to discover ways and means to improve business. How can you do the present jobs and do them better. The results they are getting from these committees are quite dramatic.

All kinds of things are being done, such as Bigelow-Sanford's clinics. Jim Wise, President of Bigelow-Sanford holds open houses at plants, having families and relatives, folks in the community come in and visit the plant. He holds public clinics for employees and folks in towns where the mills are. He himself gets on the platform and tells them to ask any questions they like and if he doesn't have the answer, he will get it for them within a week and it will be published in the local newspaper.

Sears-Roebuck has several hundred thousand dollars appropriated for a study of this particular problem, how to get participation from the people down in the organization on what is going on in the business. There is a lot of activity taking place.

When I was out in Los Angeles two weeks ago, we were discussing this problem of participation, and one man came up to me and asked if

RESTRICTED

I had 10 or 15 minutes. I said, "Certainly." We went off to a corner and he pulled out of his pocket six pages of mimeographed paper which was titled "Participation Management." He said he had become the superintendent of this particular plant five years ago and he put in this program called "Participation Management." Everybody in this plant is organized in committees, but they are organized in these committees for the purpose of making constructive suggestions. The reason for the committee is that he believes a lot of suggestions get filtered out and never leave the committee. Fellow employees will tell them how ridiculous a suggestion is. About 90 percent of the suggestions get filtered out. He never makes a policy change or major decision that he doesn't discuss it through these committees--unless it is an emergency decision.

On the back of the document was a sheet with graphs on it showing what had happened to it in the five years. The take home pay of the employees is more than double; the output per man more than doubled; the net income of the plant more than doubled. He had all these results.

QUESTION: Leading from your last statement there into the two-hat problem, with specific reference to the Department of Defense, we have a statutory outfit, the Munitions Board, which is made up of three people from the Departments, plus one from the Department of Defense; the Research and Development Board on the same pattern, and the Joint Chiefs of Staff on the same pattern. Depending on which side of the street you are on, I think it is a device for blocking progress or a device for getting information to a higher level so you get good policy decisions. My question is this: What is your reaction on the management side to the idea of having an individual serve in two capacities--one an operating one in a subordinate organization and, second, as a chief adviser of a higher level to the next top man?

MR. APPLEY: Well, I would like to answer you from the industrial viewpoint without any indication of what I think of the Munitions Board, the Joint Chiefs of Staff, or anything else.

There are some fundamental problems in the operation involved, without reference to any specific name. I think it is very good that an individual should be required to wear two hats, first as an operator of his own responsibility and then as a participant in the broad, over-all administration of the whole organization, whatever it may be.

Now Ralph Cordiner, President of General Electric, has put in his new organization structure within the last year. He spent a great deal of time studying and developing it. He announced it for the first time last June at a meeting at the Waldorf Astoria. One of the basic things he has done is to set up his officers with two basic functions to perform: (1) They are responsible for operating their own departments, divisions, and companies, whatever their operations are and (2) they are also part of the office of the president so that they will sit with

RESTRICTED

1306

him as a committee and help him decide what is good for General Electric as a whole and also for integrating the activities of the various divisions."

He has done this because he believes that will cause his officers to make their decisions not only in terms of what is good for this division, but in terms of what is good also for the company as a whole.

So very increasingly this practice is coming in of having individuals not only with a specific operating responsibility but also serving in some coordinating or even executive responsibility on a committee or staff.

Let me say this in respect to it because of the hazard. Unfortunately, there are men in certain capacities who continue to say they are there as representatives of their particular interests. They are there to protect their department, their company, their service. If that remains their attitude, then you have a bad situation. But if they realize they have taken one hat off and have stepped into another situation and put another hat on where they are no longer the administrator of their own activity but they are equally part of a coordinating and executive committee, then you get the right results.

QUESTION: In your contacts with various top managements, what is the status today regarding relationships between management and representatives of labor unions--good, improving, or what?

MR. APPLEY: I think they are definitely improving. The whole field of management-labor relations is maturing. We continue to have difficulties and always will have because there are rather opposing interests between the management leaders and the labor leaders. There is no such opposing interests between management and labor, but there is between the leaders. It is a perfectly practical situation. The leader maintains his position by carrying out a certain program for the workers and obtaining certain results. That is his problem. Those results or objectives may not be completely attuned to the results or objectives of the management. But the relationship between the two are definitely improved. I think the basis for it is not only increasing experience and increasing maturity but it is an increasing acquaintance with each other.

Most of our difficulties, antipathies, and fears arise from ignorance or lack of knowledge of the other fellow. Instinctively we don't like the other guy who is a stranger.

During World War II management and labor, through various joint activities in the interest of the war, came to know each other well, as individuals, by their first names, and, like politicians, they talk one way for the public, but they talk differently to each other. That is rather common. Relationships between management and labor are improving all along the line.

RESTRICTED

RESTRICTED

1307

COLONEL BARNES: This is probably only a 50-cent question. I am curious as to how you go about measuring the fact that an employee's worst mistake would cost the company not more than 100,000 dollars?

MR. APPELEY: In this particular case I am not sure that is a 50-cent question because I am not sure I can answer it. What they did in this particular case of the purchasing agent was in terms of what he purchased. What was the largest order he could place? They figured out how many million dollars a year were involved, the price, the possible difference in bids or the difference in quality--just what would be the greatest error he could make? The difference between what he should have purchased and what he did purchase. It was a purely mathematical proposition, based on prices of the product, the size of the purchase, the biggest purchase he would have to make and how much of an error could he make in judgment. In this particular case they got it down to 100,000 dollars.

COLONEL CAVE: Mr. Appley, on behalf of the Commandant, the faculty, and student body, I thank you very much for coming down here today and talking to us on this very important subject.

(10 Apr 1953--750)S/ijk

RESTRICTED