THE ROLE OF THE EXECUTIVE TODAY

14 September 1956

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Mr. Lyle Spencer, President, Science Research Associates, was born in Atlanta, Georgia, 10 May 1911. He attended Dartmouth College and the University of Washington, receiving his B.A. from the latter in 1933. He was a member of Phi Betta Kappa and Delta Kappa Epsilon, and a member of the round-the-world debate tour under the auspices of the University of Washington and the U.S. Office of Education, 1933-34. From 1934 to 1935, he was an instructor in sociology at the University of Washington where he obtained his M.A. in 1935. He attended the University of Chicago from 1935 to 1938, and was a University Fellow in Sociology, 1936-37, and a Marshall Field Fellowship in Sociology, 1937038. In 1940, he was selected as one of the country's 10 outstanding young men by the U.S. Junior Chamber of Commerce. From 1938 to 1942, he was President of Science Research Associates. In 1945 he was discharged from the U.S. Army as a lieutenant colonel after having served for three years in the Information and Education Division as Executive Officer of the Research Branch and Chief of the Analysis and Planning Branch. He served in Africa, Italy, France, and Germany, and was awarded the Legion of Merit and the Bronze Star. Since 1945, he has been President of Science Research Associates. He is a member of the Board of Directors of a number of companies, former National Vice President of the Yount President's Organization, and a member of the National Council of Consoltants, Small Business Administration. This is his first lecture at the Industrial College.

THE ROLE OF THE EXECUTIVE TODAY

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COLONEL SEEDS: Good morning. One of the major changes in the conduct of a business enterprise since the days of our fathers and our forefathers is the extent to which business today must make plans for and consider the management of the people that compose the work force. This need for understanding human relations is an element today of management. Top management's effort to deal more effectively with this relatively new responsibility forms the theme of our lecture this morning, which is entitled "The Role of the Executive Today."

It is a pleasure to welcome to the platform and present to this year's class our speaker, Mr. Lyle M. Spencer.

MR. SPENCER: It requires a good deal of temerity, to appear here today to talk on this topic when everyone present is a major executive himself. Only the thought that this meeting serves as a kickoff for our discussion later, which I hope will provide new ideas for all of us in this field, has persuaded me to attempt this talk.

One of the points about this topic that continues to surprise me is the amount of interest among executives in the question of executive development, possibly because underneath our confident exteriors all of us secretly feel that we are not doing nearly as well in our executive jobs as we should.

The executive is a topic that has concerned every thinker responsible for running a large organization almost since we have had social organizations. Not long ago I was reading some correspondence between John Adams and Thomas Jefferson written in 1813. Amidst this exchange of letters Adams complained that aristocrats monopolized the executive posts of that time, and that they got to be aristocrats by five routes--through beauty, wealth, birth, genius, and virtue. Only the last two of these, he said--genius and virtue--were really acceptable credentials for an executive position.

Mr. Jefferson went even further. Describing executives who obtained their posts through wealth, beauty, or birth as "artificial aristocrats," he proposed what amounted to a Federal scholarship system, to assure, as he said, a continuing flow of executive talent from every

condition of life, completely prepared by education for defeating the competition of wealth and birth for positions of public trust. Now, more than 140 years later, attempts are still being made to get this sort of bill through Congress. The Ford Foundation recently put up twenty million dollars to get a similar idea rolling by creating the National Merit Scholarship Program.

Researchers in this field hold sharply divergent views about how important the role of executive development is and what can realistically be done in the way of training executives. One school holds that there just aren't very many good executives, except for those of us here in the room today; and that the low birthrate of the thirties, the lack of training opportunities during the depression, and the huge industrial expansion that has gone on unabated for the last fifteen years has caused the most severe executive shortage that we have ever known. These forecasters believe that the shortage will probably continue for at least the next ten years, and that it is more likely to put the brakes on our current business boom than even the current shortage of bank credit.

Another school of thought--and not an inconsiderable one--holds that executives are really just flattering their own egos with such talk; that the path to the top is paved with the broken dreams and ambitions of good men who have been shouldered aside; and that nearly every company has more major league executive talent than the Yankees' farm chain.

I personally lean toward the former view, and become more convinced of it every time I try to find the right executive for an important post in my own company. Recently I was a member of a committee trying to find the right man to head a major Midwestern university. Like all personnel people, we started out by setting up our job criteria. We decided that there were at least four major credentials involved. First of all, we felt that the potential president had to be very bright, as befits a distinguished intellectual leader. Second, he needed to have the finest training and experience and to command the respect of his peers. Third, he had to understand youth and the problems of adolescence. Forth, since the university had a large financial deficit, growing larger every day, he must be a dynamic, successful money raiser.

Well, we got out this list and sent it around to a number of people, including an Episcopalian bishop. He wrote back that he had the name

of exactly the man we were looking for, but he didn't mention his name. So we wired back, and the return answer was: "His name is Paul and he was last seen in the vicinity of Tarsus about two thousand years ago."

Our group has done some research work in this area with a number of major companies on both executive selection and development, particularly with young executives. I would like to tell you today about some of the work we have been doing over the past four years with a group called the Young Presidents' Organization. It's a group of something over a thousand men and women who have become presidents of companies doing more than a million dollars worth of business annually before they themselves reached the age of forty. Most of these men are strongly expansion-minded, and nearly all of them face the kinds of problems that I suspect many of you do in your executive posts.

The consensus of this group is that the greatest bottleneck they face in the future growth of their businesses is lack of adequate talent in top management teams and in the echelon just below this level.

One of the other problems pointed up by these studies is that the inflow of executive potential is not what it might be. We find some corroborative evidence of this in some of the testing that we do for the Selective Service Administration, where we find that the students who are preparing to be business executives through taking business administration courses tend to be below average intellectually as compared to other students attending our colleges today. They are considerably below the caliber of the students who are preparing to be engineers, scientists, lawyers, or doctors.

Many of these young presidents have used phrases along this line: "If we can solve the personnel problems at the executive level, somehow most of our other problems will solve themselves."

Now, I am not going to talk to you today about recent research on factors relating to the better selection of executives, although this is a most interesting topic. If you are interested, perhaps in some of our discussion later we can get into that more. I would like to concentrate here on the results of four intensive field studies made on the relationship between the boss or the president of an enterprise and the members of his key executive team--how each thinks the other could improve his executive work, with some pungent comments of their wives, who, after all, are ex officio executives themselves. I'll try to use

some illustrations that may be pertinent to the kinds of operations in which you are involved, as well as to private business.

In general, to outsiders the term "top management" often symbolizes a faceless, powerful, largely anonymous edifice within which decisions are made and orders issued in mysterious and impersonal ways. Even within most companies the top management group is often referred to in such distant terms as "they" or "topside" or "the front office." And to this "big brother" edifice is often attributed the characteristics of being all-seeing, ever-watchful, and sometimes slightly ominous.

These stereotypes are not true, obviously. In fact, there are few that are farther from the truth than these. The top management group in every company that we have worked with is always a small one, and it's always intensely human. Arch Patton, of McKinsey and Company, has estimated that in any large business it usually comprises about one-twentieth of one percent of the company's employees. In the YPO companies the average size is from three to five executives in addition to the president. This is almost exactly the same number of children that most presidents possess, and the analogy is more than a passing one.

Like families, the members of the top management team are usually held together by strong personal ties. They usually work together toward the same goals, that are often not very explicit; and the possibility of confict is always present. They usually have great respect for the company president or "father" figure; but they sometimes exhibit the same type of petty rivalry that kids do, engaging in frequent not very serious squabbles among themselves, while exhibiting a calm and united exterior to the outside world.

Here is a composite picture of what the members of the top management team look like in most companies:

Typically the team includes an administrator. He serves as the president's alter ago and has the general responsibility, whether or not he has the actual title, of keeping the company's day-to-day operations running smoothly. On some days he looks suspiciously like an image of the president, particularly when the latter is out of town.

The other members of the team are usually vice presidents in charge of sales, production, and finance. Only occasionally are other

executives, such as those responsible for personnel, purchasing, and research, or the president's assistant, bona fide members of this team.

As might be expected, most presidents are currently and actively dissatisfied with the quality and the performance of their management team. This critical attitude is usually due less to the actual quality of their present executives than to the chronic, restless desire of most presidents to find more ways of improving and enlarging their own companies. Furthermore, effective presidents usually are acutely aware of how essential good executives are to their own personal success. It also seems probable that the chief executive who is most conscious of the defects in his present management team is usually the one who is already running the most successful company.

Here are some of the major reasons that presidents give for being dissatisfied with the operation of their present executive team: More than half of these thousand men we surveyed felt that their present executives would be unable to handle a substantial increase in the size or complexity of the company's business. These presidents felt that the necessary improvement should be made now rather than waiting for possible future business growth; and they had anxiety feelings because they weren't doing something more active about it. Frequently they felt stymied because of their ties of personal friendship or family relationship with various members of these key teams.

Indeed, many of these presidents felt that future company growth depended very largely on these essential changes being made. An equal number of presidents felt that their present managers possessed great growth potential, but that major changes and improvements were needed before they would be polished executives. A third of the presidents said that they had pointed out the changes that were needed, but that these improvements had not yet been accomplished by their executives.

This is the point at which one of the major difficulties in running a top-level management team becomes most frequently apparent. It involves the president finding better ways of communicating more clearly with his executives about the real things that he wants done in terms that they fully understand. In general, most presidents already think that they communicate effectively with their managers. Over 85 percent of them said that in individual meetings with their executives the problems they planned to discuss were satisfactorily settled. The key executives, when they were questioned, agreed that these discussions were satisfactory when they involved only day-to-day problems.

Incidentally, more than a third of these problems involved personnel matters. They emphatically disagreed, however, when the discussion topic involved major company policy or key objectives of the company. The less important the topic, the better the communication. The most serious criticism that executives made of their president was the latter's inability to voice his deepest concerns about really important company or personal matters, although the president expected his executives to act as though they understood what these concerns were.

Said one executive: "I never know where I really stand on the big issues. When problems get big enough to be painful, the chief can't bring himself to talk about them." Said another: "He should clearly define company policy and organizational authority throughout the company." And a third said: "He should let me in on company problems, objectives, and goals and keep me generally informed about what he wants to have happen."

These points can probably be explained most clearly through examples. Please note in these examples both the communications problems involved, the difficulties that can arise when the president and one of his executives define differently the mission of the latter's job, as well as the unstated premises in their relationship that sometimes cause serious trouble.

Let's turn first to the post of the company's chief financial officer. Most financial officers regard their most crucial responsibility as being the maintenance and improvement of the company's accounting system. The president, on the other hand, is apt to take for granted the satisfactory maintenance of a good accounting system as being one of the things he pays an able financial officer to do. He singles out the financial officer for praise in this area only when there is some unusual element attached to it.

Far more than most accountants realize, the president relies heavily on the ability of his treasurer to keep him and the company out of money troubles and to issue early warnings when the first financial storm clouds appear on the horizon. As John Dewey once pointed out, "Facts do not bear their interpretation on their face." Accountants are more concerned about the figures themselves, the presidents about the implications that should be drawn from these figures. Presidents evaluate the success of accountants much more on their ability to draw correct inferences from figures than upon the compilation of the figures themselves. One president gave a rather typical example of this point:

"Based on our treasurer's past forecasts, I worked out a line of credit and repayment with our bank which involved borrowing up to the hilt of our credit line. Within sixty days it was apparent that the forecast was dangerously optimistic. I felt like an idiot having to go back to the bank and explain that our estimates were all wrong. We were forced to retrench quickly, which produced serious losses."

Another point to note about financial officers, of which other members of the top management team are often more keenly aware than the president, is the treasurer's ability to move strategically against any other person in the company--the sales manager, the production manager, or the administrator. Because of his role as scorekeeper, the financial officer provides the only really objective measure of how well the other executives are doing their jobs. Numerous top management frictions can arise when other executives either do not understand or do not agree with the assumptions that the financial officer makes in totting up the profitability of their operations.

The financial officer typically is in a relatively unique position in his company, since the sole judgment about his competence usually comes from within the company itself, mainly from the president. No one outside the company judges him in the same manner as customers judge the vice presidents for sales and production. No one within the company can judge of the success of his division as easily, as coldly, and as impartially as he can judge other divisions. Careful definition and agreement about accounting assumptions are therefore extremely important in minimizing intracompany frictions and hostilities.

Well, that's the first officer I'd like to mention. The second is the chief administrator. In most companies that is what would most frequently be called the executive officer in any military operation.

Virtually every executive team contains one man who is the chief day-to-day administrator of the company. On days when the president is feeling good about his administrative officer, the latter may be seen as his closest colleague, his personal confidant, his trusty right arm, the one indispensable man in the company. Because of his closeness to the front office, however, the administrator can quickly become a handy focus for aggression when things go wrong. Then he may be viewed as a visionless clod whose stupidity is dangerously hindering company progress.

Conversely, the administrator tends to think of his president as a likeable man, who serves a valuable public relations function and often dreams up good plans for the future, but who has a regrettable, immature tendency to go off halfcocked. In short, the chief administrator is typically the maintainer of the established order; and he will fight the president or anyone else who seeks to disrupt the company's daily routine. More than any other officer, the administrator serves as the balance wheel between the conflicting forces in a company in maintaining the status quo versus the desire for growth.

From examples gathered in our YPO survey, administrators seem to feel that they understand the rhythm of company operations and the maintenance of controls much better than their presidents. And when presidents discuss the shortcomings of their administrators, the topic of future planning and company growth are most likely to be mentioned as areas where the administrator is lacking.

Finally, the administrator is most often the man who has the delicate and unpleasant responsibility of speaking frankly to the president when criticisms of the chief executive are in order. Most executives wish that there could be a freer interchange of constructive criticism at the top level within their companies, but fear of arousing presidential displeasure is usually a powerful deterrent.

Here is how one administrator tried to handle his difficult assignment. "The president," he said, "of our company controls the stock and therefore has selected the board of directors. Our board now consists of officers of the company, including myself, and a number of inactive relatives. We badly need a broader board of directors, including executives of other companies, to aid us in our growth and to help our executives in pointing out company weaknesses to our president. He listens, but he has done nothing about it; and I strongly suspect that he is afraid of having his own control reduced."

Because of lack of time here, I am going to skip the sales vice president, who is a really key man in most business organizations. Also I assume that the area of sales is less related to the type of executive situations that most of you are dealing with. I would like, therefore, to take as the next area the production manager. I don't know whether he would be called the supply officer, or in some cases the G-3, or exactly what his post would be in a military organization; but he is the man who in most companies must maintain the flow of the output of goods going out the back door on which billings can be made.

Production managers tend to think of their mission as that of maintaining a steady or increasing flow of goods at a minimum cost. Possibly more than any other man in the company, they must exercise continuing care to see that their functions interlock and mesh properly with other activities and plans of the company. The production executive is more likely to rise from the ranks within the company than any other major executive. Crucial incidents that company presidents recounted about their production managers deal most often with their getting the goods out on time in the face of seemingly insurmountable odds. They dealt frequently also with developing facilities or mustering task forces to meet heavy production demands brought on by changing markets or by fast-moving sales forces.

Just as one example, a president mentioned the following example: "January floods in California," he said, "wiped out our crop for processing. He secured," meaning the production manager, "raw produce throughout the state to keep our three plants in operation. Our competition was unable to secure raw products. We kept in operation and more than tripled our profit during the year."

On the other side, another company president mentioned the fact that when copper prices were rising during the recent squeeze a year or so ago, the production manager thought that the prices of copper were too high. He did not lay in the normal supplies that he should have. So during the peak of the season the company was shut down for a period of more than six weeks just at the time when they should have been going at top speed. In other words, he had not forseen the problems that were going to come up the day after tomorrow.

One other topic I would like to mention here is the survey of the wives of presidents that we made this last year. The most serious problem that many busy business executives typically have to deal with is their wives' lack of understanding of their jobs. Most executives' homes have more than their share of family frictions, although this is not generally noted on the outside. The most frequent point about which frictions are likely to occur is disagreement between the husband and the wife about how the president spends his time.

According to this survey, the average company president works about fifty-one hours a week in the office. Many of the wives feel that besides these fifty-one hours a week, he carries his business problems home with him; that whatever else he may seem to be engaged in, it's

the problems of business that are constantly uppermost in his mind--at the dinner table, out at the country club, around the TV set, or even in the boudoir.

While this point is rarely verbalized, many wives unquestionably equate their husbands' preoccupation with business problems with their love for them. They jealously suspect that the company rates higher in his affections than they do. Wives who have worked before marriage feel less strongly about this matter than women without previous business experience. Most husbands, according to their wives, pooh pooh this point when it arises and seem generally incapable of understanding why their mates should cherish such ridiculously feminine notions.

Lack of mutual understanding in this area and the tensions produced by it flash out in many unexpected ways. I am not going to have time to give many examples here, but I did want to mention just a couple of them, because I have been astounded by the frequency with which this sort of thing has seemed to occur among the executive groups that we have analyzed.

Business expansion is the heart beat of most industrial enterprises, at least in the view of the company presidents. The prestige and status of most presidents are intimately related not only to their ability to make their company grow in dollar volume, but also to whether their companies are able to keep pace with the expansion rates of their competitors. This is a point we noticed again and again--that even more than the actual making of money is the president's consuming, driving desire to beat his competition.

Curiously, many wives are at least passively and not always silently opposed to such expansion. Said one wife: "We already have more than I ever thought we would in our whole lives five years ago, when he became president. Now he wants to open a West Coast branch and I'll never get to see him any more." Commented another: "My husband is thinking of buying out a competitor, and I just can't see it. We'll be risking everything we have and his work will be doubled, and what good will it all do? We already have more than we know what to do with."

Several score other cases provide eloquent testimony about the fears of many wives regarding continuing business expansion. Little as she sees of her husband now, she darkly suspects that she will see even less of him as the business grows. This can only mean that the business wife is gaining ground in his affection, while she, burdened with the home

and kids, is losing out. It's a wise executive who can get his wife to understand and agree with the time requirements and the business commitments of the American industrial world.

These examples touch only a few high spots from our several YPO surveys, and I hope that they are relevant to our discussion here today.

I was impressed with the relationship of some of these things to the movie entitled "Pattern," which we all saw today, because this business of industrial executive crackup is not just a figment of our imagination or the sort of thing we see in movies. It happens all the time. This matter of maintaining a reasonably low anxiety level among major executives is certainly a problem that we don't know anywhere near enough about and one that deserves a good deal more study than it has had so far.

One of the other things that we know about many of these executives is that the most successful ones have compulsive drives for success that force them to keep going ahead; and these drives often produce human relations problems that the executives are not always able to deal with.

Another sort of thing that happens is a fierce desire for self-improvement that we noticed among so many of these executives. This is frequently more true of the younger executives than it is of the older ones.

To get some of the background data along this line that we have run across, let me state that the average executive who is now under forty has about four and a half years more of formal education than does the major executive who is over fifty. Yet two-thirds of the younger ones are actively engaged in some sort of activity that involves self-improvement. Mainly, I think, because most of these men came up to major executives positions after the depression, they feel that they have not had the wide executive experience that older men have, and they feel a defensiveness about their lack of preparation.

The two consuming areas where this desire for self-improvement occur most frequently are: anything that has to do with more effective sales programming and anything that has to do with more effective financial control. Nearly all of these YPO companies suffer from a lack of adequate working capital, and anything that their presidents can learn about how to make their working capital stretch farther is of great interest to them.

In terms of their personal problems, the topic that they are most concerned about is their inability to delegate work adequately. Most of these men, as I said before--and I suspect it's true of most of you also--got where they were by gaining a reputation for being "doers;" they got things done while other people were still talking. When they got to the post of president, if they had not wrestled with the problem of delegation before, they had it in a serious way then--that no matter how able they were, no matter how hard they worked, no matter how many hours they put in, they physcially could no longer do the entire job themselves. So this meant making a major shift in their orientation from doing things themselves to getting things done through other people, which requires qualities of leadership and human relations which they had not been paying particular attention to before that time.

If I may try to summarize briefly the overall conclusions that we might draw from these studies--and these may be topics that would be worth our discussing farther today--I'd like to turn again to the analogy between the role of a top management executive and the head of a family.

The president in most companies, certainly where the president is an effective manager, definitely plays the role of the father in the psychiatric sense; and the rest of the team represent either his sons or elder relatives. Motivating executives effectively can often be as complicated and exasperating a task to a president as motivating his children; and all of us know how difficult that is.

Most of us tend with our executives to overemphasize the motivating rewards of money and financial bonuses and to overlook other important but less tangible rewards. While the desire to earn more money is unquestionably an important and a strong motivating force to all executives, or nearly all of them, even more important in their eyes are the respect and affection of their presidents and colleagues in the top management team. Also important to them are the feelings of personal satisfaction that they derive from feeling that they have done a job well themselves.

It is important to remember that the members of a good executive team have usually been selected, or have been so trained, that they largely monitor their own conduct. This point is not typically true farther down in the management echelon. In large measure, effective executives administer their own rewards and penalties; and our main problem in managing them is to plan, coordinate, and guide their work.

An effective top executive is usually his own most critical judge and jury. Not only is he acutely conscious of the business incidents which do him credit or of which he is ashamed, but by and large the punishment or reward for the incident is meted out by the executive to himself. In fact, for almost a quarter of the critical incidents that we collected in these surveys which the key executives described about themselves, they did not feel that the president even knew when they had made a major mistake.

Most executives require the satisfying experience of accomplishment. Most of them have a sneaking suspicion that they really are not quite good enough for their present job, and they require the constant reassurance that they derive through continuing accomplishment. This drive is apparently an essential ingredient of continuing business success.

Finally, most key executives feel that they could do their jobs better if their immediate superior, usually the president of the company, would explain company policy to them in more detail. By the way, only about 40 percent of these presidents had regular, systematic review sessions with their executives to tell them how they stood and what the plans for the company were in the immediate period just ahead. Most presidents think they do a much better job in this area than they actually do.

The second thing that the key executives wish is that their presidents would interfere less with the operating details of their major staff members. This is not a problem that is unknown in the military service either.

Finally, the key executives would like to feel that they knew better where they stood in the eyes of their presidents; that they had regular periods when their work could be reviewed; and that their presidents would be franker and more candid with them in outlining both their strong and their weak points.

Thank you very much.

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