

manager receives similar support through his Operating Committee.

2. *Policy Development.* Recognition of the importance of the policy-making function was a comparatively late development in corporation history, perhaps because in smaller businesses, and in the early history of any business, the policy-making and the policy-executing functions are often combined in one or at most in a few individuals. Regarding this whole matter, Robert W. Burgess writes:

"The existence of such a thing as general administration may not be recognized by the chief executive of a small concern, whose mind is occupied by particular problems of buying, selling, designing, making, employment or pay adjustment. But in any business which grows past the point where one man can personally make all decisions, it is necessary, first, to cease deciding every issue as a separate special case and to establish normal policies and procedures; and second, to separate the problems of general concern from those pertaining to only one function of the business."

Our plan of organization provides for this.

The general managers and their operating committees settle questions of divisional policy, harmonizing these decisions with the general policies of the company. If the matter requires a new ruling on general company policy, or if it goes beyond the scope of the individual division into the field of interdivisional relations, it is referred by the general manager to the Staff Committee, which is in continuous touch with all the broader phases of company policy and interdivisional relationships with which the divisional general manager has neither the knowledge, time nor opportunity to cope.

Thus the policy problems both of the central company and of the divisions are adequately covered.

3. *The Teaching Function.* In the following words H. S. Person has called attention to the vital importance of the teaching function in scientific management:

"A failure of leadership may be absence of appreciation that the development of scientific management is an educational process. The integration of various types of executives, the elimination of old patterns of habit by understanding practice of

the new, the adjustment of the controllable and the uncontrollable, the stimulation of common constructive effort in devising the new procedures, and particularly, the gradual development of that understanding and sympathetic appreciation without which all else is impossible, must be the result of truly educational processes. These cannot be achieved by fiat."

Our type of organization offers maximum opportunities for effective educational effort with minimum interference with individual initiative and responsibility. Every executive has a definite place and a definite work, but channels are continuously open through which flow ideals and policies, consolidated experience, the best standard practice, and continual comparison of actualities with objectives. The plan thus concentrates the entire strength of the organization upon the attainment of known and desirable goals.

4. *Accounting and Budgetary Control.* To control and co-ordinate the activities of a business for net profit, administrative organization requires (1) plans or standards, and (2) facts as to actual performance. These plans and facts are expressed in terms of dollars. Our accounting summarizes plans or standards by means of a budget, and facts or actual performance by means of operating statements and balance sheets.

This type of organization makes possible the most effective dynamic use of both budgetary control and constructive accounting, the chart and compass of administrative management.

Each division has its own accounting and cost organization, but receives through the comptroller's office the benefit of technical skill and constructive ability which would not otherwise be available. This results in standardization of progressive methods, and promotes comprehensive analysis of both divisional and overall results.

Before the first of each year, each division prepares and presents to the president and Staff Committee a complete annual budget, broken down by accounting periods of four weeks each. This budget when approved and accepted becomes the measure for the divisional results of the year.

In addition, we are now developing for current operating control a continuous quarterly budget for each division which gives the general manager at the beginning of each accounting period a picture of his probable sales, cost of sales, selling and

administrative expense and net profit for each of the three following periods.

Our development of the budget is based upon the primary premise that the fundamental purpose of budgetary control is to foresee probable future results accurately and to control them effectively to attain the budgeted goal.

The annual budget serves as a useful and necessary general measuring stick, while the continuous quarterly budget provides the working tool through which the desired annual results may be attained or approximated.

If the quarterly budget presents an unfavorable picture to the general manager, he is in a position to take effective action *before* and not *after* the fact, to attain the desired result. The three-period span is sufficiently long to permit the general manager to initiate and carry through adjustments in manufacturing and purchasing schedules, reduction in expense or increase in sales pressure, as may be necessary.

Standard costs are a necessary prerequisite to this type of accounting and budgetary control, and are in use in all divisions.

5. *Research.* Our plan recognizes research as a primary company responsibility. This function is assigned to one of the members of the Staff Committee. It ranks with sales, manufacturing, purchasing and control functions. This staff executive, with the assistance of his associates, formulates and correlates the research program of the company, which includes the following: (1) market research, (2) technical research, (3) mechanical research and (4) economic research.

Each division has its own research department, engaged in the solution of problems peculiar to the division. The staff research executive has the same type of responsibility for divisional research as the comptroller, for example, has in regard to divisional accounting, cost and budgetary procedure.

6. *Organization Motivation.* Harmonized motives are what drive the organization forward, and therefore the art and science of motivation must fit into and be furthered by the organization plan.

Our plan meets this test. It promotes and facilitates constructive leadership, both within the divisions and in the central company. It welds the organization into an effective, harmonious unit inspired by worthy ideals and united in common

purposes. It affords individuals an opportunity for joyous self-expression, and a constant challenge to accept and successfully carry responsibilities and to develop and advance within the limits of their capacity. It provides in the budget and in the accounting procedure a means for fairly evaluating actual results against accepted standards, and for establishing financial and other incentives for unusual performance.

7. *Flexibility for Expansion.* The final test of the soundness of any organization plan is this—will it provide adequately for the expanding needs of the future as well as for those of the present?

Our plan successfully does this through the flexibility it introduces into general administrative organization and control. The problem in expansion is reduced to that of building competent and self-sustaining local organizations, and of co-ordinating them with the objectives, plans and policies of the company as a whole by means of the Staff, a central body which requires no change as additional operating units are added.

Through the placing of large local responsibilities new executive talent is continuously being developed for higher positions in the same division, in other divisions, or in the manning of new units.

We have followed the principle, both in the divisions and in the central organization, of building a strong personnel, with adequate understudies. It is our experience that one of the best investments for a growing business is to have a slight excess of promising young executive material.

What is the broader significance of the plan of administrative organization I have described? It is this:

The plan provides not only for progress on the material level, but for the development of individuals and for finer social relationships. These human and social values are dealt with, not vaguely nor theoretically, nor even as ideals to be reached sometime, somewhere, but as practical issues for today, here, in a business organization. In other words, the broad significance of this plan is not its significance as a clever tool, but its significance as an instrument for individual and social upbuilding. That significance has important implications; for we should remember that the industrial system, based on private property and individual initiative, is under attack, notably in Russia, and that even in our country, violent fluctuations in the economic