

circumstances, he will continue throughout to be a subordinate worker in a large corporate organization.

This forcing into corporation employment of an increasing proportion of men who have natural qualities of leadership and of independence of thought must have its inevitable reactions upon methods of management, and upon the forms and types of corporation organization.

It is important that corporations shall be efficient, but it is much more important that men shall be efficient. These two requirements are not, however, antagonistic. The final efficiency of an organization is the product of the efficiency of its methods, as methods, and the efficiency of its men, as men—and it is the purpose of the present paper to indicate, as far as possible, the compromises and adjustments between men and methods through which the maximum sum total of efficiency may be attained.

#### The Elements of the Problem

In considering these compromises and adjustments it will be helpful to begin by dividing the problem into its elements. We are concerned, in any case, with large-scale organizations, since the problem under discussion is, in effect, to discover how such organizations may secure in their senior and junior executives that degree of capacity, initiative and energy which is frequently manifested in the management of small privately owned businesses.

In any large scale enterprise there are four major questions which arise:

1. Is the business economically justified as to type, size and location?
2. What should be the fundamental structure of the organization?
3. What general methods of management and operation will conduce to the soundest *esprit de corps*?
4. What special monetary or other incentives should be offered to stimulate the personnel to put forth unusual efforts?

Each of the preceding questions has a direct bearing on the special problem we are discussing. No skill in organization or management can overcome the handicap under which an enterprise that has been started off on a fundamentally unsound basis operates—and the more intelligent and cap-

able the executives of a falsely conceived enterprise may be, the less enthusiasm they may show for its development. Furthermore, no amount of good-will or effort can make a real success of an organization that is fundamentally defective in structure—nor can even a correctly designed organization be effective if it lacks the spark of life that is supplied by a sound *esprit de corps*. And, finally, there are always certain ultimate touches that may be given to the energies of even the best of organizations through well planned premiums for special effort and results.

#### The Structure of Organization

For our present purposes we may assume that we are dealing with enterprises that have logical reasons for existing, and that, in general, meet the fundamental economic requirements in their particular classes. The initial question is, therefore, as to the structure of the organization. The enterprise may be a chain store system, a public utility, or a factory under one roof, or one with production units scattered over a broad area. Whatever may be the character of the business, its organization is necessarily functional at the bottom. The degree to which functions are isolated and subdivided may vary somewhat, but the principal differences between otherwise similar organizations are apt to be determined by the manner and extent to which some or all of the various functions are consolidated under unit executives having broad responsibilities and authority. One organization may be set up from top to bottom along strictly functional lines. Another, quite similar as to size and operations, may maintain this complete separation of functions only with respect to, say, general finance and accounts, and purchasing and selling, and may consolidate other functions under a series of unit and subunit managers or superintendents, with perhaps a general office staff in advisory relation to the functions so consolidated.

Those who have had experience with a wide variety of organizations will realize the endless combinations and recombinations of functions that may exist, either as a matter of choice, or by reason of the nature and conditions of particular operations. It is impracticable and unnecessary for our present purpose to discuss even typical examples in detail.

The essential point is to recognize the fact that

every organization is, and must be, a compromise between the principle of functionalization and the principle of unified and responsible one-man authority. Both principles have their values and each has its defects when carried to extremes.

The highly functionalized organization is apt to be superior in technique; but it is slow to act in emergencies and may throttle initiative in supervisory personnel and finally suffer, even in technical ways, from the growth of a bureaucratic spirit and the mental ossification of entrenched and narrow-minded specialists.

The non-functional, or slightly functionalized organization, is naturally weaker in technique, but is quicker in emergencies and, through competition between units and the allocation of wider powers to junior executives, tends to develop a more resourceful and broadly competent personnel.

#### The Compromise Plan

As has been indicated before, all good organization, and in fact every good thing, is a compromise. Each new and good principle in organization, as in everything else, tends to run to extremes. Many organizations that have tested out the "functional" principle most thoroughly and for the longest time are now swinging back to a compromise plan, under which definite territories or other general units of the organization are placed in charge of broadly trained managers who are assisted by appropriate staff specialists. Each of these staff specialists is ordinarily in direct relation, on matters of technical information, with a corresponding functional department at the headquarters of the company. New technical principles and specialized methods, developed or approved by the functional departments at headquarters, and approved by the general executive, are put into practice in appropriate operating units of the organization on the basis of specific instructions, prepared by such functional departments and issued over the signature of the general executive. The actual application of such new principles or methods is then supervised by the corresponding staff specialists of the separate units.

Smooth working relations between the unit managers, the functional departments at headquarters, and the unit staff specialists, are found in practice to be assured by observing a few simple principles, as follows:

1. Unit staff specialists should be chosen by the

unit manager from a group (preferably three or more) nominated, and ordinarily trained, by the functional department at headquarters.

2. Salary increases for unit staff specialists should be on joint approval of the unit manager and the functional department head, plus, of course, the approval of the general executive.

3. Disciplinary action with respect to, or removal of, a unit staff specialist should be on the same basis as with respect to line subordinates of the unit manager.

In organizations large enough to justify the setting up of several substantially self-contained units the preceding plan has many advantages. The development of specialized technique and methods is advanced rather than hindered by the plan and is apt to take more practical forms, if a reasonable amount of initiative on new methods is left to the unit specialists working in close co-operation with the unit managers. The general authority of the unit managers over all branches of operations tends to prevent "buck passing" between departments and the growth of a bureaucratic spirit along functional lines. Situations involving several functions can be handled more satisfactorily and expeditiously by the unit managers than by several functional representatives; this is of particular importance in dealing with customers and public authorities. And finally, it is possible to secure and retain the services of men of high quality as unit managers, who would chafe under the red tape and delays and the lack of teamwork that are sure to exist where the functional idea is put too rigidly into effect.

In very large organizations it is possible, and sometimes desirable, to carry the unit idea a step farther by appointing subunit managers, in which case the relations of the subunit managers and their staff assistants to the unit manager and his staff are exactly the same as the relations of the latter to the headquarters organization.

Each organization is, of course, a special problem in itself, and the handling of all functions does not need to be the same in any given organization. The essential point is to secure an effective combination of, and compromise between, the functional and unit principles. The word "organization" by its very derivation involves functionalization and, as has been indicated before, all organizations are necessarily functional at the bottom, just as they are necessarily of the unit type at the top. The