

neither nepotism nor favoritism, and the best man must invariably get the job.

Fifth.—Again, we believe that the trained employee is the best investment to the Company. To that end we select our people with the greatest care, having a highly organized plan for this purpose. Recognizing that a sound body is a prerequisite to skill in any form of work, we subject each applicant to a physical examination. Having qualified for a position and been assigned to one, we then afford these young men and women many opportunities for self-improvement through the Company's educational facilities.

So much for some of the underlying principles. A word now of the organization itself. It is an organization with a general Executive Department, and with the work sub-divided among seven functional departments, namely: Sales, Engineering, Purchasing, Manufacturing, Accounting, Treasury and Legal. These departments control their respective functions throughout the Company, and delegate authority for action down the line. This plan is applied to a working force of 30,000 employees, of which the largest units aggregating 20,000 employees are located at one place. The remainder are located in forty-one of the principal cities and elsewhere throughout the United States.

The functions of these several departments are those generally assigned in other concerns, but I shall name them briefly.

The Sales Department is responsible for the execution of the commercial policy of the Company, for the kind and quantity of articles manufactured and the quantity of merchandise bought for resale. It determines the selling prices, has charge of advertising, and renders service to customers from its warehouses throughout the country.

The Engineering Department is responsible for the design of all apparatus manufactured by the Company, and also has the final responsibility for the quality of the product manufactured.

The Purchasing Department oversees all purchases and conducts the Company's relations with its principal suppliers.

The Manufacturing Department is in charge of the Company's manufacturing plant and its operation.

The Comptroller has oversight over the accounting work of all departments and acts as auditor of the funds placed with the Treasurer.

The Treasury Department has charge of the funds of the Company and the credits and collections from customers.

The Legal Department guides the Company's course of business in accordance with the requirements of the

law, and is in charge of all matters of contracts and taxation.

It is difficult to describe, within the limits of this paper, the working relations of this organization. The first four departments, Sales, Engineering, Purchasing and Manufacturing, because of the work assigned to them, may be styled operating departments. The last three, the Accounting, Treasury and Legal, are, more properly speaking, staff departments for the general executive. The personnel of these last three departments is made up of a corps of experts in their respective lines.

Of the so-called operating departments, three, the Engineering, Manufacturing and Purchasing, are organized on functional lines. Their work is of a large volume and confined to a few localities. The Sales Department is organized on a staff and line basis, and as it presents some unusual features I shall use it to illustrate our plan of organization.

The general executive of the Sales Department is surrounded by a staff of sales specialists, experts in the marketing of the articles which we sell. He also has reporting to him an administrative assistant who is the executive of the line organization composed of the sales offices and distributing warehouses throughout the country. This executive has a staff of specialists in the different branches of his work, who are occupied in devising improved methods of work, teaching the personnel of these local houses and inspecting the results of their performances from time to time.

The line organization of the Sales Department is made up of these sales offices and distributing warehouses, each in charge of a manager responsible for all the activities of the house, and each a complete organization in itself, comprising departments for business getting, warehouse service and collection of accounts. These managers report up to the head of the Sales Department to whom they are responsible for results.

But the other general departments have a measure of responsibility for the performance of their functions at the houses.

To illustrate, the Comptroller prescribes the form of accounts and the accounting methods to be followed, and, through inspection by his own staff, sees that his instructions are followed.

The Treasurer lays out the methods for the work on credits and collections and inspects this work.

The head of the Purchasing Department does the same kind of work with reference to the purchasing function. If he finds that some or all of the houses are buying the same class of material and that by combining the purchases an economy would be ef-

fect, an arrangement is made according to an established routine by which this article is added to the list of principal purchases, all of which are bought by the General Purchasing Department.

The experts of the Manufacturing Department inspect the warehouses for fire hazards and general upkeep. They also determine whether manufacturing work shall be carried on in the repair shops which are a part of the local warehouse organizations or in the General Manufacturing Department at Hawthorne. The purpose of this is to see that the manufacturing plant is built only at such places where the work can be done to the best advantage from the point of view of the whole Company.

You may realize now that a manager is surrounded by a ring of advice and protective measures, but, at the same time, he is held strictly accountable for the results of his house. The way in which this functional organization works out in actual practice in our organization is illustrated in the following way.

The manager of a distributing house makes periodical reports on the condition of his business, such as the volume of sales, the amount of stock on hand, the amount of accounts receivable. Suppose his accounts receivable were to run an average of fifteen days higher than the standard set. It would be the Treasury Department that would call his attention to this variation, seek from him an explanation therefor, and, in the event that the situation responsible for it was one calling for expert assistance to the manager, the Treasury Department would very likely furnish from its staff a man competent to help the manager correct the situation. In this fashion the functional organization works, not to embarrass the distributing house man, but to assist him.

I have now presented the outlines of the Sales Department organization and shown its relations to the other departments. The other general departments of the business divide themselves naturally into groups according to the character of their work, and the relations of one to the other follow, in general, the description given of these relations with the Sales Department. This control of policies and methods by functional departments make for unity in the Company's policy. It makes it possible to develop men of a higher grade. From these conditions, work of a higher grade naturally follows and enables the Company to secure the benefit of its expert talent in all the different departments.

It now remains to give some account of how the general departments, with their respective functions, are coordinated. I have already introduced you to our Organization Record and the General Instructions. Under the General Instructions a series of directions

is issued by the heads of the General Departments covering the functions for which they have a Company responsibility, and such directions are mandatory throughout the organization. Such instructions will lead to a lack of team work if all the departmental executives were not working on a common plan. These common understandings and unity of action are obtained through the meetings of a General Committee which is composed of the executive heads of these seven general departments—Sales, Engineering, Purchasing, Manufacturing, Accounting, Treasury and Legal.

The members of this General Committee meet to inform each other of important Company matters, to discuss questions of Company policy, to present for discussion questions of internal management arising in their departments, to discuss appropriations for increases of plant or investment, to discuss appropriations for expense, and to consider such other important Company matters as may be brought to their attention. The purpose of this Committee work is to arrive at conclusions which will represent the combined judgment of its members and to develop a uniform Company policy in all departments.

In turn, each department large enough to justify it has a departmental committee for the same purpose, and they have proved to be of great value in bringing about common understanding of Company policies and a singleness of purpose in the work.

Other committees are formed from time to time to study special problems, and are made up of the experts from different departments. Such groups are organized temporarily when there may be a need to promote cooperation among departments and to obtain quicker results. Care must always be taken that such committees never usurp executive duties, for the executive responsibility always follows the line marked out in the Organization Record.

No method of central control is complete without an adequate system of accounts, leading to budget making and prompt reports. Individuals and organizations both accomplish better results if they have a pace setter or a standard to strive for. Each year we prepare budgets to cover the sales estimated for the coming year and the expenses of each department incident to handling this volume of business. The complete budget also contains all of the other items of expense not directly related to the current sales, so that at the beginning of each year a standard is set for the work of each unit of the organization. As an administrative measure this is definitely known. Plans for securing it are made in advance, and the doubtful or weak spots in our defenses are marked for special attention. This process is another one of