FEDERAL RESERVE BANK OF PHILADELPHIA

DECEMBER

1958

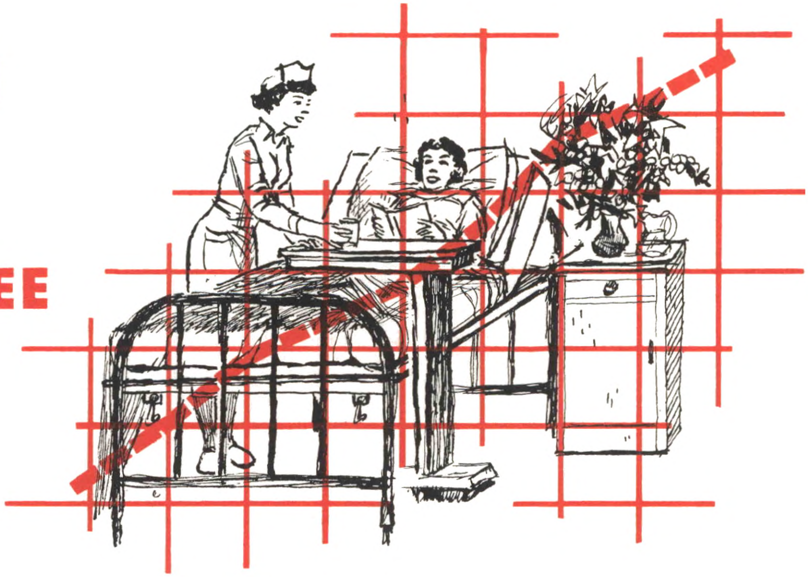
health isn't free

a new capital pipeline for small business

christmas buying looks good

business review

HEALTH ISN'T FREE



When you first become vaguely conscious of a feeling of discomfort somewhere in the equatorial region you are inclined to ignore it. If the discomfort degenerates into a nuisance or a pain that aspirin tablets no longer dispel, you reluctantly consult a doctor. After a professional pummeling and poking, the doctor finds the cause of your trouble. It has a Latin name, and requires immediate surgery says the doctor with profound gravity. Your face betrays even greater gravity as you exclaim, "An operation!" And so, for the first time in your life, you enter a hospital carrying a valise instead of a bouquet.

On going to a hospital

On checking in at the hospital, there is a long questionnaire to be filled out. Cavalierly, you answer all the questions—just a matter of routine—except the one about who is your next of kin.

You are not expected to tip the nurse who conducts you to your room. She tells you to get undressed, go to bed, and promptly disappears. Apprehensively, you await the surgeon with his kit of tools, but nothing happens. Just about the time you conclude that you have been forgotten, a succession of nurses appears—one to lead you to the scale for a weighing, another to take your temperature and pulse, another to take your blood pressure, and the needle nurse to get samples of your blood.

After another long period of apparent neglect, comes a squad of nurses with a rig that looks like a portable filling station after it is assembled. Your hunch was right. The juice flowing by little drops into your blood stream is glucose and saline—an energy reinforcement and a shock absorber. About the time you are fueled up, the surgeon makes his appearance. He engages you in cheerful conversation and avoids all shop talk except to say that you will have your operation at 8 o'clock tomorrow morning and that you will not be given any breakfast. After a loudspeaker announcement asking all the visitors to leave the hospital, a nurse hands you a paper cup and a small capsule, designed to help you to fall asleep.

The capsule made short work of the night. A pair of nurses in spotless uniforms gives you full attention. Another capsule and another needle and you get dressed up for the party with the queerest toggery you ever saw. The queerest toggery you ever . . . the queerest toggery you . . . the queerest tog . . . the queerest . . . the queer . . . the . . .

It is most uncomfortable to be lying on a steeply slanted roof on top of a tall building with a tin sheet for a cover and no pillow. But there you lie at a dizzy height—way, way up. Way up, "Wake up!" says the nurse standing beside your bed, and you ask why all the delay, why didn't they perform the operation, and she tells you that it's all over. Then why can't you be let alone? Why the brushing of teeth and the bathing fetish? You will surely come apart if the nurse insists on going through with the bathing ceremony! With persistence on the part of the nurse and no co-operation on your own, bathing is completed and, miraculously, you have not come apart.

The days of convalescence get longer and longer, especially after you graduate from the horizontal to the vertical. The body has long since recovered from the shock of surgery, and finally comes the day when the surgeon says you may go home. When you check out, there is another shock—the bill. At $18 a day for so many days, the largest item is likely to be room service. Then there are numerous extras, such as laboratory fees, drugs, operating room, anesthesia, X ray, and perhaps blood service, physiotherapy, oxygen, and surgical dressings. The total bill may be $500 or more. Nor is that the end.

Some time later, during convalescence at home, you receive in the mail another shock—the surgeon's bill. That may be $300, more or less, depending upon the nature of the surgery. Not counting loss of income through absence from the job, the operation may cost $800—a serious blow to the family budget.

Everyone is a potential hospital patient. In the course of a year, at least one out of ten persons becomes a bed case for medical attention. Prior to the first time you land in a hospital, you probably had regarded yourself as a superman—perpetual strength in perpetual motion. Hospitalization teaches you that the body you live in is a fragile retort of flushing chemicals and fleeting emotions. With the help of enforced rest the human body usually recovers very nicely from the physical shock of surgery.

Recovery from the psychic shock to the pocketbook-nerve is achieved by some people through the purchase of health insurance. About 70 million people are insured against the hazard of hospital expenses. Under these policies the insurance companies indemnify the beneficiaries for hospital expenses incurred. Another form of protection, perhaps less well known, is Blue Cross.

BLUE CROSS

Blue Cross is a prepayment program between a number of hospitals which offer their services and a large number of people who want protection on a regular basis against the hazard of hospital bills. It is a nonprofit corporation which removes most of the money worries of hospitalization. The basic principle of Blue Cross is a service contract—that is, one providing benefits, not dollars, coupled with a Blue Cross member hospital contract, under which payment is made to the hospital for the service benefits guaranteed by them. It is a prepayment plan whereby the subscribers buy their hospital service when they are well so as to reduce the shocks of money worries when they are ill.

How it works

Blue Cross is no Santa Claus, but another form of protection utilizing the insurance principle. The subscriber pays for what he gets, and the payments are made in advance in manageable monthly installments, and the payoff comes on the day of adversity.

The subscriber may buy the hospital service by entering into an individual contract with Blue Cross or he may subscribe as a member of a group—usually the firm or company he works for. Under the group subscription plan, a single remittance is customarily made by the firm for all of its employee-subscribers, and some firms absorb part or all of the cost on behalf of their employee-subscribers.

Monthly payments under the group plans range from slightly over $2 for individual protection to approximately $7 for family protection, where all members of the family are covered. Rates vary with the type of contract and in Pennsylvania are subject to review and adjudication of the State Commissioner of Insurance.

The benefits to subscribers, depending on the contract, cover most of the hospital costs such as semi-private room, meals, nursing service, operating room charges, drugs, anesthetics, electrocardiograms, laboratory fees, etc. Subscribers under a group plan need not terminate their hospitalization service upon retirement. Upon payment of the going rates, subscribers may continue their Blue Cross protection through the period of retirement. This is a particularly attractive feature because the need for hospitalization usually increases with age.

Blue Shield applies to major doctor bills, which frequently account for about half the cost of a prolonged illness. Blue Shield, though a separate organization, works like Blue Cross with which it is closely associated. Blue Shield is assisted by Blue Cross in the collection of monthly installments from subscribers and in the remittance of payments to doctors and surgeons for services rendered to Blue Shield subscribers.

A prodigious growth

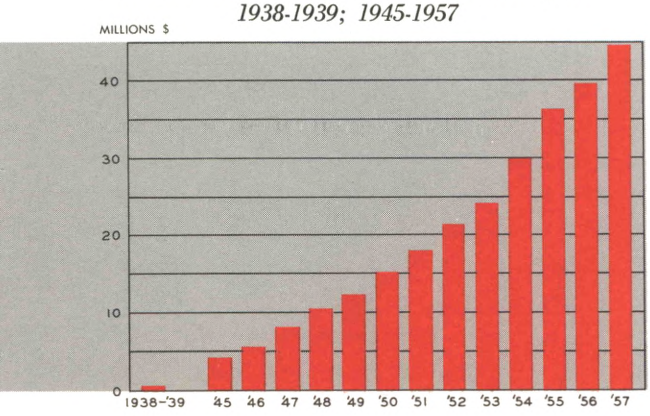
Blue Cross has had a phenomenal growth in the comparatively short period since its inception. No one knows when he will need hospital care nor what it will cost him. The hospital bill for one patient with heart disease may be $250 and for another with the same disease it may be $2,500. The amount depends upon the procedures required for proper treatment, the drugs administered, the length of stay, and many other factors —all beyond the patient's control.

In 1932, a National Committee on the Costs of Medical Care discovered that 50 per cent of the cost of all medical care in the United States was incident to hospitalized illness or disabilities. Furthermore, it was found that the 10 per cent of the people who are hospitalized each year had to bear 50 per cent of the medical care costs for that year. These are the reasons for the widespread acceptance of the Blue Cross plan for providing hospitalization under which payment is made to the hospital for the service benefits guaranteed by them.

The Associated Hospital Service of Philadelphia was started in 1938, with an office force of five people, a typewriter, borrowed furniture, a box of pencils, and a $30,000 loan. Today, Blue Cross of Philadelphia occupies eight floors of a 12-story building it owns in central city; has 550 employees, a telephone switchboard with 73 trunk lines, a teletype system, electronic data processing machines, and a forest of files. All this is required to accommodate its 2¼ million subscribers and the 85 member hospitals in the Philadelphia metropolitan area. Payments to hospitals on behalf of subscribers rose steadily from less than $5 million in 1945 to approximately $45 million in 1957. Payments in 1957 averaged $122,000 every day of the year. In the twenty years of operation, Blue Cross has paid out over $300 million of hospital bills for approximately 3 million subscriber cases who have benefited by receiving hospital care. In 1938, the Mayor of Philadelphia took out the first membership card. Now, 68 per cent of the population of Greater Philadelphia is covered by Blue Cross.

HOSPITAL CARE PROVIDED

The Associated Hospital Service of Philadelphia 1938-1939; 1945-1957



The Lehigh Valley Blue Cross has had a similarly rapid rate of growth during its comparatively short period of existence. Its membership grew from 26,000 in 1940 to almost 350,000 in 1957, and hospital claims paid since 1940 rose from less than $100,000 to approximately $6½ million. Wherever Blue Cross hospital protection is available, people are quick to take advantage of its facilities.

It is significant that there are more than 80 nonprofit Blue Cross Plans throughout the United States, serving over 55 million subscribers. All Blue Cross Plans must meet the requirements of the American Hospital Association. All of them render service benefits, as distinguished from cash indemnities. Their boards of directors include representatives of hospitals, the medical profession, and the public, and directors serve without pay. Within a period of 25 years, payments of hospital bills for subscribers of Blue Cross Plans rose from $15,000 a year to more than a billion dollars in 1957. This is a rate of growth few industries can match.

SOME HOSPITAL ECONOMICS

Maintenance of the country's 7,000 hospitals costs the American people $5½ billion annually, and they have more than $12 billion invested in them. Blue Cross does not own or run any of these institutions, but it has a direct interest in the voluntary hospitals which serve its subscribers whose bills it pays.

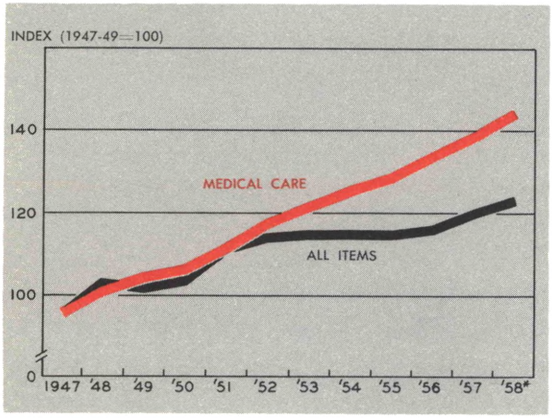
Hospitals are indispensible but peculiar institutions with a strange history. Originally, our hospitals were charitable institutions for the down and out. Now they are health-restoring centers for the down and in.

A hospital is like a hotel that merged with a restaurant, a laboratory, and sometimes a nurses' training school, medical college, pharmacy, library, and nursery to boot. It takes quite a variety of skills to manage a hospital—bookkeepers, engineers, dieticians, doctors, dishwashers, maids, nurses, laboratory technicians, surgeons, physiotherapists, internes, elevator operators, etc. The doctors are not under the control of the hospital but they decide who is to be admitted, how long each patient is to stay, and the nature of the treatment. Thus, medical practitioners exert considerable influence over the expenses incurred by these institutions, as they must. It is a rare hospital indeed that does not have a shortage of beds, nurses, rooms, ice water, and money, and an abundance of patients, visitors, flowers, hypodermics, and complaints. Running a hospital requires a depth and breadth of understanding that is out of this world. The manager ought to be a doctor of medicine, law, psychology, economics, bacteriology, engineering, dietetics, sociology, and backing-up drain pipes. The wonder is that hospitals run as well as they do.

The cost of medical care

Medical care costs money, and in recent years it has been costing more and more. The costs of services, as distinguished from goods, are usually slow in responding to economic developments, but when they rise, they soar. The cost of medical care more or less paralleled the rising cost of living in the early postwar years, as shown in the chart. After 1951, however, cost of medical care rose much faster than the over-all cost of living and now the cost of medical care is 44 per cent above the 1947-1949 base, in contrast with the consumer price index which is 23 per cent above the base. Moreover, it is somewhat disturbing that the rising cost of medical care shows no signs whatsoever of letting up despite the fact that it costs $1.44 to buy the medical care that cost only a dollar a mere decade ago.

COST OF MEDICAL CARE



Source: Bureau of Labor Statistics *Estimated

Since 1947, the cost of medical care has gone up faster than any of the other major items in the consumer price index except transportation. As the bar chart shows, the cost of apparel rose least, and transportation most, but the cost of medical care rose far more than six of the major items in the consumer price index portrayed in the chart.

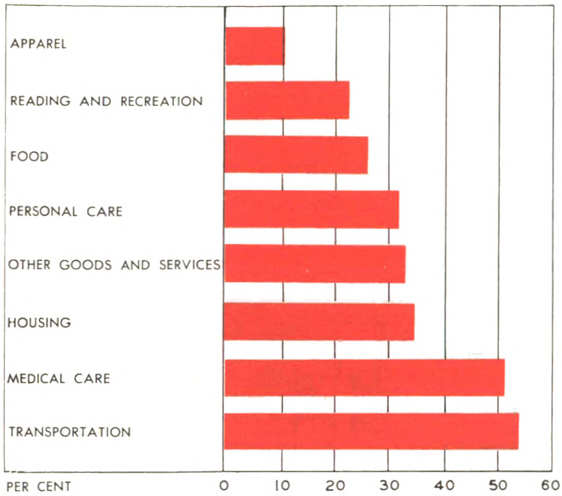
Doctor bills and hospital bills

When illness strikes, people are prone to growl and grumble about doctor bills, but those whose illness lands them in the hospital have a much better conversation piece for griping. Look at the accompanying table and see how hospital room rates have gone up in contrast with doctor bills and costs of other services. During the past decade, hospital room rates more than doubled, which is in striking contrast with the 26 per cent increase in surgeons' fees, the 34 per cent increase in dentists' fees, and the 39 per cent rise in fees of general practitioners. The cost of haircuts, laundry service, automobile repairs, and public transportation all rose more than doctors' bills and less than hospital room rates.

YOU CAN'T PAY BILLS WITH INDEX NUMBERS

"The medical care index, like the whole of the Consumer Price Index, is designed to measure only the change in price for items of *the same quality and quantity customarily bought* by urban wage-earner and clerical-worker families." So says the Bureau of Labor Statistics which

CHANGES IN MAJOR COMPONENTS OF THE CONSUMER PRICE INDEX 1947-1958*



Source: Bureau of Labor Statistics *Estimated

created and maintains the index. The italics are our own, for thereby hangs a tale of considerable moment to hospitals, doctors, Blue Cross, and all people served by them.

Someone has said that hospital care today is as different from such care fifteen years ago as today's aircraft differs from that fifteen years ago. Medical science has not been standing still. Although hospitals do not practice medicine, they supply the housing, machinery, tools, and all the other supplies and facilities required by the doctors who practice medicine within their walls with ever-advancing technology. A complicated piece of machinery like an artificial heart or an artificial kidney, which keeps a patient alive while the surgeon is operating on the organ, may cost $300 just to set up the machine and run it while the surgery is being performed.

Hospitals are constantly being called upon to perform a variety of services. Surgery is not the only function. Hospitals are offering increased diagnostic and treatment services. They are called upon for more private and semi-private accommodations; they are performing more out-patient service; they have expanded programs of medical and nursing education, and also have expanded programs of public education. These are all necessary functions but it costs money to perform them.

Hospital costs go up or down with fluctuations in occupancy. In a hospital, the unit of production is the bed occupied by a patient; an empty bed produces no revenue and it entails overhead costs that must be borne by the patients receiving care. The ideal situation would be to have all beds occupied all of the time, but a hospital just cannot schedule production like a cheese factory.

Improvements in diagnostic and treatment procedures have shortened the average length of stay of patients, and that likewise contributes to higher per diem costs. Higher bed turnover, to borrow a term from industry, increases nursing costs and housekeeping expenses.

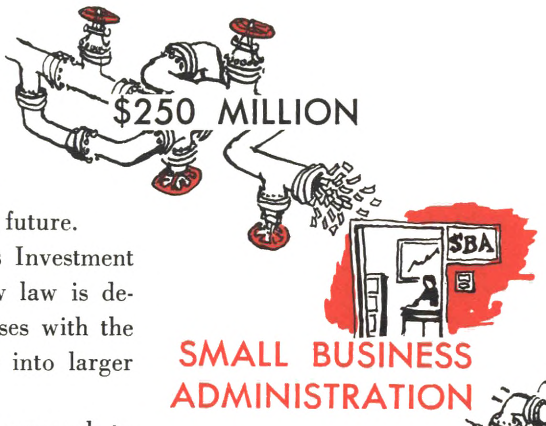
Rising salary and wage levels are major causes of increasing hospital costs. Hospitals must compete with industrial and commercial concerns in the general labor market to get their complement of employees with diversified skills and talents,

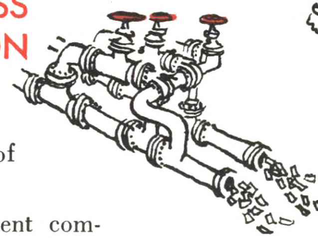
(Continued on Page 10)

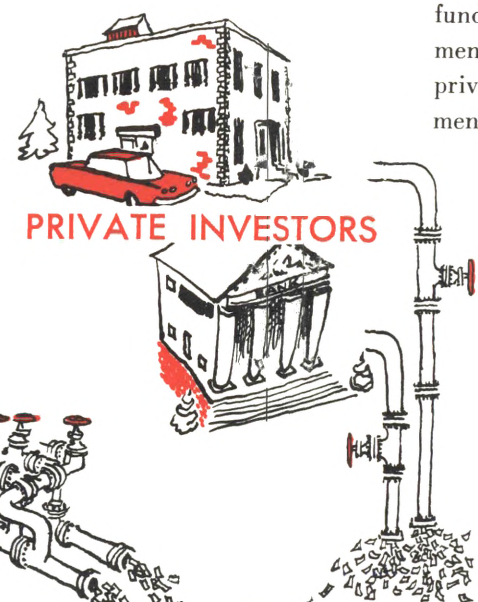
PERCENTAGE INCREASES IN COST OF MEDICAL AND OTHER SERVICES, 1947-1957

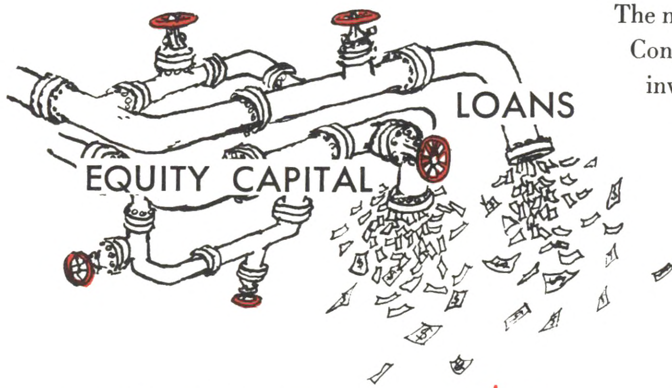
B.L.S. Item	Index (1947-1949 = 100)		
	1947	1957	Percent increase
Hospital room rates	87.4	187.3	114
Public transportation	88.6	178.8	102
Men's haircuts	94.3	159.3	69
Laundry service	94.2	137.4	46
Automobile repairs	95.5	139.7	46
General practitioners' fees	96.9	134.5	39
Dentists' fees	95.2	127.4	34
Movie admissions	98.4	130.5	33
Shoe repairs	97.1	125.6	29
Surgeons' fees	96.2	120.9	26

A NEW CAPITAL PIPELINE FOR SMALL BUSINESS









Small business, oftimes pictured as the poor relation of American free enterprise, is in line for some additional financial help in the near future. Congress passed the Small Business Investment Company Act last August. The new law is designed to help supply small businesses with the long-term funds they need to grow into larger businesses.

The keystone of this most recent approach to the problems of financing small business is a new kind of financial institution—the small business investment company. Investment companies, the legislators hope, will attract large amounts of private capital and channel it into many of the nation's four million or so small businesses.

The Small Business Administration (SBA), which is administering the program, recently issued its regulations. It is now accepting applications from would-be investment companies. The first licensed companies will probably begin operating early in 1959.

INVESTMENT COMPANIES FOR SMALL BUSINESS

Ten or more persons may form a small business investment company. Each company must have a paid-in capital and surplus of at least $300,000.

An investment company may get up to $150,000 of its minimum capital requirement by selling subordinated debentures to the SBA. The SBA will charge 5 per cent interest for these funds with a maximum term of 20 years.

In addition, investment companies will be able to borrow from the SBA up to 50 per cent of their paid-in capital and surplus. These loans will also carry an interest charge of 5 per cent and have a maximum term of 20 years. The SBA has indicated, however, that it will primarily make short-term loans. Investment companies will be able to use the loan funds as cash reserves until they are able to build up sufficient capital of their own.

Investment companies will, of course, be able to borrow from private investors also. In total, they may normally borrow up to $4 for every $1 of capital and surplus.

Congress has authorized $250 million under the new law. It is clear from recent statements that SBA is going to make this money go as far as possible. It has put the emphasis, in its regulations, on private financing. It will provide loan funds and capital only to the extent that investment companies are unable to obtain funds from private sources. In granting licenses to investment companies, it will undoubtedly give preference to those that contemplate the minimum use of public funds.

The new investment companies will help small businesses in two principal ways. They will provide capital by purchasing convertible debentures. They will also make long-term loans.

An investment company can, when it wishes, exchange the debentures it has purchased for stock. Its loans will usually be for a term of 5 to 20 years. Existing state usury laws will limit the interest it can charge on both debentures and loans. Where there is no legal limit, the SBA will set a maximum.

TO REDUCE THE RISK AND INCREASE THE RETURN

Through several related tax provisions, Congress has reduced the risk of investing in small business and, to a still undetermined extent, increased the possible return.

The tax laws now permit small business investment companies to treat losses on convertible debentures and stock as ordinary loss deductions instead of capital losses. Furthermore, owners of investment companies may treat losses on investment company stock in the same manner.

Tax modifications have also increased the potential return. The dividends an investment company receives from stock it holds in small businesses are completely exempt from the corporate income tax. And there are other new tax benefits for small businesses themselves that will indirectly accrue to investment companies.

The new pipeline will soon be in place. The next few years should tell whether Congress has made small business investment attractive enough to substantially increase the flow of capital.

(Continued from Page 7)

and as a result of rising wage-salary scales generally, hospitals are under constant pressure of rising costs to get and keep adequate staffs.

Still another cause of rising hospital costs is the readier disposition of a rapidly growing population to utilize hospital services when needed. Scarcely a generation ago, people were scared of hospitals and shied away from them like the plague. Indeed, there was a time when, in the opinion of some people, hospitals delayed rather than hastened the restoration of the health of its patients. In this generation, however, it is the rare person who does not accept hospitalization on recommendation of his doctor; the annual in-patient admission rate has increased from 8 to 12 per cent of the total population.

Curbing the costs

As might be expected, no two hospitals are alike nor are their cost curves alike. Identical treatment of identical cases may cost 30 to 40 per cent more in one hospital than in another. Variations in cost arise from differences in age of buildings and equipment and differences in managerial policies and performance.

Efforts to reduce hospital costs are exerted in four major areas: more effective utilization of facilities, improved personnel practices, better procurement procedures, and improved accounting practices. C. Rufus Rorem, Executive Director, Hospital Council of Philadelphia, points out (in the March 1957 *Journal* of the American Hospital Association) four major areas that have been effective in controlling the cost incurred by hospitals in serving patients.

"More effective utilization of beds and diagnostic and treatment facilties (reduction of number of beds per room to permit alternative use by various types of patients; increased special services to vertical patients referred for study and treatment by physicians; better scheduling of admissions, discharges and professional procedures to avoid the necessity of expanded facilities for beds and scientific equipment.)

"More effective use of professional and institutional personnel (the employment of practical nurses, aides and technicians to perform certain functions under the direction of professional nurses.)

"More scientific procurement and use of supplies and materials (the adoption of uniform standards to permit large-scale buying for departments; simplification of sizes and types to reduce manufacturers' cost; joint buying of commodities where specifications can be applied to generally used items; systematic storage and issuance procedures; group conferences and action among hospital purchasing agents concerning purchasing methods; standards of quality, delivery schedules, etc.)

"Uniform accounting and statistics. More effective use of uniform accounting and statistics would enable hospitals to appraise the results of varying methods and practices, and to compare the experiences with those of other institutions. The information obtained through adequate and uniform records and reports, if properly applied would, in my opinion, increase services in most hospitals without additional expense."

Blue Cross has a very real interest in keeping hospital costs at a minimum because all of its income collected from subscribers is used to pay hospital bills except for costs of administration. In Philadelphia, 93 cents of every dollar collected from subscribers is available to pay hospital bills.

Some people say that Blue Cross Plans, by their very nature, promote unnecessary hospitalization, that some doctors either on their own or under pressure of their patients are too quick to send patients to hospitals and too slow to discharge them. The problem, whatever its magnitude, is a medical problem and should be solved by the medical staff. Doctors themselves should and must decide what is best for their patients. Concerted efforts are being made to eliminate the abuses of Blue Cross privileges. Blue Cross has tightened its contract provisions with subscribers. The Pennsylvania Insurance Commissioner has authorized Blue Cross Plans to make expenditures for instituting reforms to eliminate abuses in the use of hospital care.

Blue Cross of Philadelphia has given widespread publicity to an effective plan devised by the Sacred Heart Hospital of Allentown for the elimination of unnecessary use of hospital facilities. In order to eliminate Blue Cross "boarders," that hospital set up a plan for admitting patients based upon the degree of urgency, and systematic procedures were established to shorten the stay of each patient. The plan includes features such as quicker transfer of patients to specialists, scheduling of X-ray and laboratory tests before admission, speeding up requests for consultation, moving up the check-out time before 11 a.m. to save a day's room charge, no shifting of patients from private rooms to semi-private or wards where shortages usually prevail, and penalizing doctors for nonconformance with the rules.

Blue Cross rates have gone up from time to time as a consequence of rising hospital costs, increased use of hospitals, and improved hospital care provided. The statement has been made that Blue Cross is in danger of pricing itself out of the market. Blue Cross rates, however, have gone up only because hospital costs have gone up; so what the statement really means is that hospitals may price themselves out of the market. The probability of that happening is just about as great as the chance that people will stop eating because the cost of food is too high.

Suppose that all of our hospitals were modern and up to date, that all were adequately staffed, that all inefficiencies were eliminated, and that all costs had been cut to the irreducible minimum. As a result of all this, it might be possible to reduce your hospital bill materially. Whatever the reduction in the size of the bill, it would still be a shock to the individual. This is not to say that unnecessary costs should be tolerated, but there is no escape from the simple and obvious truth that it costs money to run a hospital and, as someone has said, "It isn't so much the cost of the thing as the uncertainty of it that causes most people to complain about hospital bills." The insurance feature of Blue Cross eliminates that big uncertainty and substitutes for it a small constant cost. For family protection, that amounts to the price of a daily pack of cigarettes.

CHRISTMAS BUYING LOOKS GOOD

This year's Christmas buying season at department stores in the Philadelphia Federal Reserve District seems to be going well. And, unlike last year, holiday business was preceded by a period of many weeks in which sales were an element of considerable strength in the local economy.

For this District as a whole, dollar volume at department stores was maintained above 1957 levels in all but two weekly periods from July through November. Moreover, in better than half of these weeks the margin of increase over 1957 ran to 5 per cent or more.

Pre-season spending patterns changeable

Although the pattern of consumer spending in this whole period seemed to indicate a preference for soft goods lines, the late summer and early fall brought an encouraging improvement in the demand for some durables, including major appliances, television, and the recently introduced stereophonic sound equipment. This trend was apparent in the breakdown of department store figures and it was hopefully mentioned by many of the appliance dealers with whom we discussed the situation.

For a time it looked very much as though 1958 might be much more of an appliance Christmas than 1957 turned out to be. But, after October, consumer buying interest in these "big ticket" durable items seems to have waned. Some department store executives and appliance dealers, particularly those in our smaller metropolitan areas, remained optimistic as the Christmas season approached. However, a marked diversity of opinion has developed and many of our merchants are expressing doubt as to just how much appliances, television, and similar expensive equipment will contribute to the Christmas sales totals.

This renewed hesitancy of consumers (they are Christmas shoppers now) to commit themselves to a heavy expenditure for a single item is in line with the latest findings of the University of Michigan's Survey Research Center. This report, covering conditions in the country as a whole, noted a surge of consumer optimism beginning just after mid-year. But it also established the fact that this optimism was tempered with caution when it came to making expenditures for the more costly durables, including appliances.

Shopping vs. buying

Thanksgiving, by tradition, marks the beginning of the Christmas shopping season everywhere. And on the day following, it is "situation normal" for retail merchants to play host to the crowds of shoppers intent on examining all the wares that are offered. Sometimes these preliminaries take many days. That is how it was last year. But this 1958 season seems to be shaping up differently.

Many of the department store executives we have talked with lately tell us that buying is going hand-in-hand with shopping. Their impressions of early season business suggest a higher rate of sales than in the same period last year. In some cases a store-wide promotion sale has opened shoppers' pocketbooks. But for the most part people are not just bargain hunting; this year's crop of Christmas shoppers appears more anxious to purchase their gifts early. Perhaps they remember the last-minute crush that wound up a record 1957 Christmas season.

Price consciousness in many places

It would be most unusual if shoppers did not take a second look at a price tag now and then. They are acutely aware that consumer prices continued to rise during the recession and early recovery and have only recently leveled off. And if a gift can be bought somewhere for less, that's where they will go. So our merchants have to be careful about markups on this season's merchandise. The competition is keen everywhere and in just about all departments.

Selections in gift merchandise

Some merchants tell us it is a little early to define trends in strictly gift merchandise. Others say business in what might be called luxuries is already in the limelight. But that does not necessarily mean expensive luxuries. These articles usually are not purchased in quantity until much later in the season. The term as used here must be defined more nearly as items ordinarily in greatest demand at Christmastime.

As might be expected, sportswear and a wide range of merchandise peculiar to sporting goods departments are said to be having a pretty good fling right now. Furniture seems to be the chief "big ticket" item moving in many of our metropolitan area department stores. Small appliances like toasters, clocks, and portable radios are said to be selling well. But, in all fairness, it should be mentioned that in some cases these items have been competitively priced and so advertised to serve as early season drawing cards.

To be sure, toys are a leading item everywhere at this time of the year. But some of our department store executives appear not too happy with the response so far. Except for the major appliances, television, and the like, toys appear to be about the most competitive item on the Christmas market. Many retailers, regardless of their regular lines, accumulate a wide assortment of toys at this season. As the competition sharpens, discounts increase, and prices fall by the wayside. In this respect the 1958 Christmas buying season is not too different from any other.

How the season stacks up

There was scarcely a merchant among those we talked with who did not say this season's business *should* come up to that of a record 1957. In fact, it would be a defeatist attitude for almost any retailer to see anything unusual about Christmas sales going on and on to set new records year after year. Yule sales are important to all of them, because such a large percentage of a full year's business normally falls in the weeks between Thanksgiving and Christmas. In the case of our department stores that ratio comes somewhere around the 15 per cent mark.

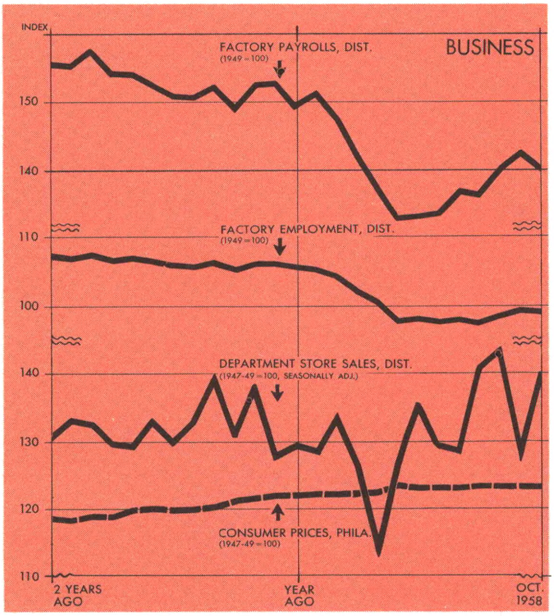
But when you get down to cases—the more realistic expectations based on early season performance—you are bound to find some diversity of opinion. This year more of our department store executives expected to beat last year's record by a small percentage. Almost everyone saw an excellent chance that dollar sales would at least equal 1957. Only in an exceptional case or two was the thought expressed that it might be hard to repeat last year's performance for the whole Christmas season.

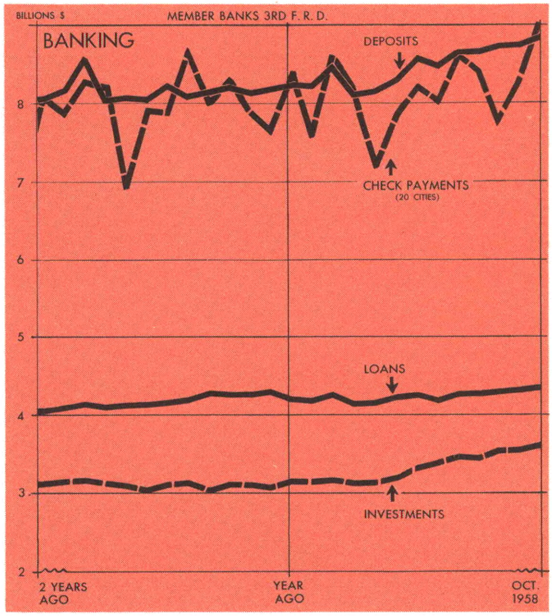
business review

FEDERAL RESERVE BANK OF PHILADELPHIA

TABLE OF CONTENTS—1958

FOR THE RECORD...





Factory Payrolls and Employment Revised

SUMMARY	Third Federal Reserve District: Per cent change, Oct. 1958 from mo. ago	Oct. 1958 from year ago	10 mos. 1958 from year ago	United States: Per cent change, Oct. 1958 from mo. ago	Oct. 1958 from year ago	10 mos. 1958 from year ago
OUTPUT						
Manufacturing production	− 1	− 8	−12	+ 3	− 2	− 8
Construction contracts	+46	+103	+ 5	+ 3	+27	+ 9
Coal mining	0	−13	−23	+ 3	−14	−21
EMPLOYMENT AND INCOME						
Factory employment (Total)	0	− 6	− 7	− 1	− 7	− 9
Factory wage income	− 1	− 6	− 9	....	....	....
TRADE*						
Department store sales	+ 9	+ 9	0	0	+ 5	− 1
Department store stocks	+ 2	+ 1	....	+ 1	− 2	....
BANKING (All member banks)						
Deposits	+ 1	+ 7	+ 5	+ 1	+ 7	+ 6
Loans	0	+ 3	+ 1	+ 1	+ 2	+ 2
Investments	+ 1	+15	+10	+ 1	+17	+13
U.S. Govt. securities	+ 1	+13	+ 7	+ 1	+17	+12
Other	+ 1	+21	+18	+ 1	+17	+16
Check payments	+ 9†	+ 8†	+ 2†	+ 9	+ 4	+ 4
PRICES						
Wholesale	....	....	....	0	+ 1	+ 1
Consumer	0‡	+ 1‡	+ 2‡	0	+ 2	+ 3

*Adjusted for seasonal variation. †20 Cities ‡Philadelphia

LOCAL CHANGES	Factory*: Employment, Per cent change Oct. 1958 from mo. ago	year ago	Factory*: Payrolls, mo. ago	year ago	Department Store: Sales, mo. ago	year ago	Department Store: Stocks, mo. ago	year ago	Check Payments, mo. ago	year ago
Lehigh Valley	0	− 9	+ 1	−11	....	....	....	....	+ 2	− 7
Harrisburg	+ 1	−11	− 2	−17	....	....	....	....	+ 5	+ 5
Lancaster	0	− 3	+ 2	+ 1	+24	+37	+11	+ 4	+ 6	+ 8
Philadelphia	+ 1	− 5	− 2	− 1	+ 5	+ 8	+11	+ 2	+12	+ 7
Reading	0	− 6	+ 1	− 4	− 3	+ 8	+19	+ 2	+11	+ 1
Scranton	+ 1	− 6	+ 4	− 3	+13	+10	+13	+ 2	+ 9	+ 4
Trenton	− 5	−20	− 5	−17	+ 4	+10	+20	+ 6	+ 2	− 1
Wilkes-Barre	0	− 5	+ 1	− 2	− 2	+ 2	+10	− 5	+ 7	+ 1
Wilmington	− 5	− 9	− 1	− 7	+ 4	+ 7	+15	+ 1	0	+31
York	− 2	− 4	+ 2	0	+ 9	+ 9	+10	+ 2	+ 4	0

*Not restricted to corporate limits of cities but covers areas of one or more counties.

ACHIEVING ADMINISTRATIVE COMPETENCE

Supplement to **business review** December, 1958

FEDERAL RESERVE BANK OF PHILADELPHIA

Two Addresses

by

Robert N. Hilkert

First Vice President

Federal Reserve Bank of Philadelphia

before the

Pacific Coast Banking School

at the

University of Washington

Seattle, Washington

August 28-29, 1958

ACHIEVING ADMINISTRATIVE COMPETENCE

Part I: The Supervisor

Why do most of us go to banking schools? There are numerous answers, plain and fancy, righteous and not-so-righteous, that one might give.

I think most of us go because we want to advance ourselves in the banking business. Plainly speaking, this means we aspire to be a boss, a bigger boss, or the big boss. There is nothing inherently wrong with wanting to be boss. The job carries prestige, power, authority, and money; perhaps not a lot of money, but at least more than goes with not being the boss. Most of us actively seek this prestige, power, authority, and money that goes with being boss.

There is here something of a similarity to the opening sentence of John Galbraith's recent book, "The Affluent Society": "Wealth is not without its advantages and the case to the contrary, although it has often been made, has never proved widely persuasive." So it is with being boss.

This is putting it pretty bluntly. If it sounds crass or too materialistic, as I am sure it may to some, at least it will provide a springboard for panelists to launch into attack position. I hope, however, as we go on to develop our ideas that no one will come to believe that I am talking about a low order of motivation. On the contrary. I have profound respect for the basic qualities and abilities which are ingredients of first-class business leadership. My references to bosses apply to admirable men.

Some people avoid use of the word boss as they would the plague. We have a large department store in Philadelphia in which the word *employe* is similarly avoided. This store doesn't have employes; it has *co-workers*. The plain fact of the matter is that this store has bosses and it has employes, and nobody is being fooled very much through the avoidance of common terms.

For two evenings we are going to discuss the subject of bosses, on the assumption that *we* want to be bosses, and on the further assumption that everyone who is employed, at whatever level, wants to have a good boss. Just to focus on the importance of the second assumption, let me ask this question, "Does it make any difference to you whether *you* have a really good boss, or just a plain, ordinary stinker?"

For purposes of our basic discussion I should like to side-step some problems of technical definition: first-line supervisors, second or third administrative echelons, managers of line or staff; or questions such as, "Who is a supervisor anyway?" I just want to discuss *the man we work for*. Sometime later, if we wish, we can talk about the kind of boss we work *with* rather than *for*, but at this point that kind of talk serves only to confuse. Most of us can identify our boss as "the man we work for," and there is no reason to make it more complicated.

Permit me to clear out one more bit of underbrush. Some people don't like to use the word *boss* because it appears to connote certain undesirable characteristics. True, there is one definition that refers to being "too domineering and authoritative" but that happens to be the number five definition in the dictionary I use. Why pick number five? The first defines the boss simply as "one who employs or superintends workmen; a foreman or manager." No qualities given. It leaves open the question of whether a boss has traits that are good or bad. So, let us take off now on the subject of the boss—"the man we work for."

The boss is in a position of authority. This means he has power over other people. Possibly he has become boss because he has a will to power. Through the exercise of power he has an important influence over the lives of others. Dress it up any way we like, we cannot escape one fact inherent in the superior-subordinate relationship, for such it is—this power over people. One may exercise it in such manner that it becomes power *with* people, but power *over* people still persists.

It seems important to emphasize this fact of power because it makes so clear the fact that it must not be given to the wrong kind of person. We know full well the dangers of power in wrong hands. Remember Lord Acton's dictum, "Power always corrupts, and absolute power corrupts absolutely." I don't believe the first part of this at all. Power doesn't *always* corrupt. But I do believe firmly that there is great danger that it may do so. It may unless the person having power has strength of character, nobility of purpose, and human understanding. Is spiritual power corrupting? Is moral power corrupting? Is there not the power of inspiration? What of the power of good example? The power of humility?

We are, however, dealing with power that is inherent in *authority*. It is dangerous. It requires education in its use. It calls for safeguards. Above all, it should be given only to those who give reasonable expectation that they will use it wisely. We should choose bosses with the greatest of care because in appointing them to their posts we automatically confer upon them this power of authority.

In the achievement of administrative competence it is of the utmost importance that the boss be at all times aware of the dangers inherent in the power of authority. The awareness arises from continuous self-examination. Do we ourselves, for example, have the strength of character, nobility of purpose, and the human understanding which enable us to exercise the power of authority wisely? This is difficult to answer for ourselves. To "Know Thyself" is one of the highest attainments of mankind. Self-analysis and self-appraisal are indispensable, but we require more than this. We need the continuing critical evaluation of others who observe us, who are competent to judge, and who will give honest answers and constructive advice. We must actively seek this help so that we may avoid the common corrupting pitfalls. Paraphrasing Robert Burns, "Would that we might have the gift to see ourselves as others see us."

The safeguard does not have to be unionization, although it is clear historically that unionization stemmed from the desire of individuals to protect themselves from the arbitrary or capricious exercise of administrative authority or managerial power. We may leave for panel discussion the question, "What administrative safeguards may we have to keep the power of authority within proper bounds?"

Properly to exercise power requires the leader to have knowledge of and respect for the rights of all members of the organization, bosses and all others. What rights? These have been succinctly stated by Ordway Tead as follows:

1. The right of every man to be treated as an individual and respected as a person.
2. The right of every man to a voice in his own affairs, which includes his right to contribute to the best of his ability in the solution of common problems.
3. The right of every man to recognition for his contribution to the common good.
4. The right of every man to develop and make use of his highest capabilities.
5. The right of every man to fairness and justice in all his relationships with superiors.[1]

It is difficult to comprehend just how the supervisor, the boss, or the executive, the bigger boss, can operate effectively without belief in these basic rights. Without full appreciation of these rights, he has no guide to the exercise of the authority and power which are inherent in the job he is called upon to perform. He sails without benefit of compass. Seldom are bosses failures because of technical incompetence. Most bosses who fail do so because of lack of human skill. One approach to the acquisition of human skill is to test one's every act, every decision, in terms of these rights. Supervisory training is barren indeed when it focuses primarily upon techniques rather than upon, yes, philosophy.

This is all very well, you are saying to yourselves, but we must be practical. This is a workaday world and the job of the boss is to see that the work gets done. I agree. I go along with Larry Appley and the American Management Association's definition that "management is the accomplishment of results through the efforts of other people." The job of profit-seeking institutions, and that includes banks, is production. We are interested in high-quality output at low unit-cost. So, if we are primarily interested in output why not focus upon production rather than upon the basic rights of man?

The answer to this has been demonstrated many times. People have an enormous capacity to do better, or to do worse. They can increase or improve production, or they can withhold, hinder, "soldier"—call it what we will. Remember the account of the rebuilding of the wall of

[1] **The Art of Administration,** by Ordway Tead, McGraw-Hill.

Jerusalem found in the Book of Nehemiah, and the noble verse, "so built they the wall, for the people had a mind to work." The mind to work —is this something arising solely from techniques or know-how? Or does it stem from motivation, or inspiration, or something that somehow touches the heart?

How can a boss do his job of getting out production unless he knows what it is that makes people produce—makes them *want* to produce; because people who don't want to, who haven't the mind or will to work, won't produce very much. Administrative competence includes knowing what it is that makes people want to do their best, and then acting in the full light of that knowledge.

Curiously enough, this brings us back to the problem of power and authority. Degree of productivity is related to the way individuals and groups respond to the power or authority of the leader. A business organization is not a totalitarian or dictator state. Men are appointed to positions of authority but the effectiveness of the response they get from others has to be *earned*. Good management can never rely for its effectiveness upon superior position or status. The boss has authority to be sure, but half-hearted acceptance of that authority—and the corporate world is filled with examples of half-hearted acceptance —invariably results in substandard, high-cost performance. The leader whose authority isn't fully, or at least highly, accepted by the group has no chance of administering competently. This is an old story. We can lead the horse to water but we can't make him drink. Administrative competence shows itself when the horse drinks, and does it willingly.

We have pointed to the dangerous nature of power and authority. We have warned against conferring it upon the wrong people. We now put this danger in a somewhat different light. The danger is that power and authority will not be accepted. This is the beginning of organizational deterioration. Just as "where there is no vision the people perish," so it is that where there is no acceptance of constituted authority the organization fails.

How does the boss earn the group's acceptance of the authority which has been conferred upon him through his appointment to his position? And for the rest of this first evening let us consider the boss to be a supervisor, a man who has as subordinates only those workers who may be called rank and file. Most of what we have to say will, however, be equally applicable to the supervisor's own boss, say a department head, or to his boss. The earning of this acceptance is an essential part of the business of achieving administrative competence.

First of all, the boss should demonstrate that he has genuine understanding and appreciation of the five basic rights already enumerated, and he should give clear indication that these are beliefs he lives by in the performance of his daily tasks.

We can discuss these from another angle. The boss should clearly understand two sets of objectives, those of the bank and those of the people who work in the bank. Fundamentally, the bank exists for the purpose of providing top-quality services to the community in such manner as to produce profit. We who are employed have other objectives. We want to earn a living for ourselves and our families. We seek reasonable protection against the hazards of sickness, old age, and death. We look for opportunity to advance in position, prestige, and status. We want to find some fair amount of joy and happiness in our work. I have seen numerous studies, dolled up statistically, which endeavor to rank these in the order of their relative importance to employes. Does money come first, or is it third? Much of this is a waste of time. Each of us looks for money, security, prestige, recognition, status, the joy of achievement, and all the rest. The value we place upon each is subject to a great variety of conditions. We want *all* these things; and I guess we tend to place special value on those we presently have in *least* amount. If I enjoy my work but get low pay for doing it, I begin to think about the importance of compensation. If I am paid well but have inadequate protection against the hazards of illness or old age, I dwell on the importance of security benefits. The value I place on each varies with age. When I am young I may be eager-beaverish about getting ahead, and I become frustrated at lack of opportunity. With retirement around the corner, my ideas change. And so it goes with respect to changes in marital status, dependency, etc.

The boss should know about these objectives. Further, he should come to know his subordinates so well that he understands *their* ways of thinking about them. Employes should perceive that the boss is working to help them achieve *their* objectives. He will never gain full acceptance by focusing solely upon the objectives of the bank. This is what makes his job so difficult. He has the problem of paying attention to the bank's objectives *and* to those of employes. The boss is working for the bank, but he also has the job of working for his employes. It takes great skill and resourcefulness to do both. When employes come to believe that their boss is not working for them, but solely for the bank, they will not look upon him as a leader to be followed, except perhaps perfunctorily. They may perform, but they will not perform well. To the extent that they do not perform well, the bank's objectives will not be met. This is another way of saying that when the boss is not working for his subordinate employes he is in fact selling the bank short. He cannot administer competently by acting as though it is only the bank that has rights and goals.

I should like now to take issue with an idea that one often sees in print or hears from the speaker's platform. It is that "a happy and contented workforce is a *productive* workforce." Well, it may not be. Contentment and productivity do not necessarily go hand in hand. It is possible for employes to be so contented that they do not permit work to interfere with their gracious living. How often have we heard company presidents say, "I want my employes to be able to say that my shop is a good place in which to work." Fine, but it isn't enough. The goal should be to have them add, "And believe me, *we produce!*" Unless the boss works with this goal in mind it is unlikely that he will become a competent administrator.

Here is something else requiring more analysis than we usually make. During the recent past, industries — including banking — have moved along three main roads to improve employe well-being. They are:

1 *Wages and salaries.* In this we include all the ingredients of modernized, sound salary administration. (You might possibly wish to discuss these ingredients later.)

2 *Fringe benefits.* You know them—vacations and holidays with pay, sick leave plans, hospitalization and surgical benefits, severance pay, group insurance, and all the rest.

3 *Extra-curricular activities.* This includes all social and recreational activities that are company-sponsored. Parties, picnics, and bowling!

Generally, all this has been for the good — although even here you might wish to register a few doubts. The point I wish to make, however, is that common to all three is the fact that *none can be used while the employe is on the job.* Illustration will make this clear.

Wages and salaries. The employe, or more likely his wife, spends the paycheck *off the job.*

Fringe benefits. Vacations and holidays with pay, the employe is away from work; sick leave, he's probably in bed; hospitalization, he's you know where; severance pay, he's lost the job; insurance, he's dead. Test for yourself any of the others—cafeterias, coffee breaks, rest periods, etc.

Extra-curricular activities. By definition, the employe is *away from the job.*

It is apparent that the boss, the supervisor, can't administer successfully by relying upon salaries, fringes, and recreational activties to solve the *on-the-job* problems and needs of employes. Somehow he should get at the business of helping each employe to find satisfaction in his *job performance,* to experience pride of accomplishment. There is such a thing as "joy of work." People who do not feel it are being cheated out of one of life's greatest and most satisfying experiences. In this area lies a real administrative challenge to every supervisor, every executive. Acquiring administrative competence includes making continuous progress in meeting this challenge.

At the risk of going over territory that you have no doubt explored many times, I should like to comment briefly on some of the elements that I believe lead to job happiness. Everything I say can be found in any textbook on personnel, but I am drawing solely upon my own experience by endeavoring to think through why I have been happy myself doing the jobs I have performed in some thirty years of working. There's value in personalizing.

I have never had a job that I simply couldn't do. I know that there are many jobs—many in my own bank, at which I would fail miserably. I've just never been assigned to them. Please don't think I am trying to give an impression that I'm so smart I could do any of my assigned jobs with one hand tied behind my back. At some of them I have had to struggle pretty hard; but I was sufficiently confident that if I worked hard enough at them I had a better-than-even chance of making good. The point is that I have not been assigned the wrong jobs *for me.* My bosses were administering with understanding and managerial competence.

At the same time—and I know I have been fortunate—there has always been someone in the offing—the boss, a colleague, and I mustn't forget my wife, who bolstered my confidence when I was discouraged. Believe me it feels good to have a boss around who *wants* you to make good, who *helps* you to make good, and who *rejoices* when you succeed. My bosses have been competent bosses in the highest sense of the word.

In nearly every job, although not all, I have felt that my efforts were appreciated. It is good that I have had both experiences because one knows how important is appreciation by experiencing its opposite. But let's forget the exception.

My bosses have never made me feel that I am just a cog in the machine, just a payroll number. They have made me feel that I am a person in my own right. I have been discouraged, I have felt the sting of my own mediocre performances, I have been subjected to strong constructive criticism, *but I have never felt unimportant.* Small, yes, but not unimportant!

The other day I was reading Erich Fromm's volume called "The Sane Society" and came across a sentence that I immediately recognized as belonging somewhere in this talk. It belongs here:

> ". . . this need for a *sense of identity* is so vital and imperative that man could not remain sane if he did not find some way of satisfying it. The need to feel a sense of identity stems from the very conditions of human existence and it is the source of the most intense strivings."

Shouldn't a supervisor know this? Can he understand his subordinates if he doesn't know it? Can he administer competently if this kind of understanding is foreign to him?

How would *you* like to have a boss who has the sense and the skill to put you on the jobs that are right *for you,* who doesn't give you assignments that are wrong *for you*? How would you like to have the kind of boss who works for you, helps you succeed by setting right examples, by rejoicing when you're up and encouraging and stimulating you when you're down? A boss who appreciates having you on his team, who treats you as an individual in your own right, who makes you feel important. A boss who is a better man than you are but who is trying hard to make you a better man than he is. Suppose you had a boss like that, would you work hard for him? Would you let him down? Would you soldier on the job, or would you try to outdo yourself? What happens to production, to quality of output, under these conditions? Does this shed any light on what we are talking about when we use the term administrative competence?

In our correspondence about these two evening sessions it was suggested by the school that on the first evening we should center our attention on supervisory development and the second on executive development. It may seem as though I haven't really gotten into the specific topic of supervisory *development,* certainly not very far with respect to programming. It has been with design. So far I have simply tried to make five principal points:

1 The *selection* of a supervisor must be made with great care because he acquires power and authority over people. Only grief can come to the organization if power and authority are placed in the wrong hands.

2 The first step in the *training* of a supervisor is to instill in him an awareness of this power and authority situation: (a) the dangers of misuse and abuse, and (b) the problems of inadequate acceptance. Inherent in this awareness is the fact that effective response to authority must be earned.

3 The *main job* of the supervisor is to achieve results through people who are his subordinates. His goal is quality production at low unit-cost. To be administratively competent he must understand what causes people to produce at top efficiency.

4 In achieving production he should realize that people do best *when their own goals are being met.* Therefore, he should understand employe objectives, and his supervisory job should be performed so as to help his subordinates attain them. He should do it in such ways that they can perceive that he is working for them.

5 These points add up to a basic truth. Supervising people is an administrative process applying more to people than to things. The more difficult tasks center on human relationships rather than upon operating techniques. Administrative com-

> petence rests not exclusively upon social or human skills, but such skills are required in high degree. The implications of this truth for supervisory selection, training, and evaluation are readily apparent.

It should not be inferred from any of the foregoing that I am trying to play down the many aspects of the supervisor's job as it relates to information, communication, and technical, operating know-how. The modern supervisor has to know the bank's policies, rules, and regulations; the bank's cost system, its payment system, and its methods of appraisal and evaluation. He should have an understanding of labor laws applying to his subordinates. He has to know how to induct, instruct, and train new workers. He has to know how to prevent grievances, and how to handle them when they occur. He has to know how to correct workers and maintain discipline. From these we can see that it is almost impossible to separate his job into technical and human relations categories. He is supervising people, but these people are *engaged in bank operations*. Just as he must know people in order to gain their respect, so he should know the operations or he will not win their confidence. He is not a Sunday School superintendent, Y.M.C.A. secretary, college guidance counsellor, or scoutmaster—and I say this without disparagement—but he *is* a supervisor of individuals performing certain bank operations. He does not administer in a vacuum.

Your reaction should be, "We are certainly expecting an awful lot from a supervisor!" Yes, we are. It is a difficult job. There are so many things he has to learn and do that we have a tendency to not sell him short but "train him short." In doing this there is a common tendency to train him short in the realm of social and human skills and to concentrate on the areas which are primarily technical or informational. My plea is for us not to make this mistake.

I deliberately shy away from prescriptions concerning training programs for supervisors because I am certain that there is no one best way of achieving goals of individual development. Experience leads me to believe that it is not a question of lectures, or seminars, or visual aids, or role-playing, although under proper circumstances these techniques have their place. I feel that there is no substitute for the training and development which comes from close daily association with bosses who themselves are good administrators—men who already have the attributes we have discussed, bosses who take a personal interest in us and who take it upon themselves to guide us in our self-development. Actually, all development is self-development. The only way to learn responsibility is to be given responsibility, not make-believe, but real. Just as great oaks from little acorns grow, so big responsibilities emerge from smaller responsibilities.

In learning to swim it is probably best not to be thrown into deep water without preliminary instruction. There is some explanation and training that can and should be given on dry land. This instruction is not limited to techniques of movement and of breathing. The coach must understand his pupil because his biggest problem may well be that of helping him to overcome emotional problems of insecurity, anxiety, and fear. Both the coach and the pupil know, however, that when the chips are down swimming is learned *in the water*. Improvement comes with daily practice, in the water, under the experienced guidance of a discerning and interested coach.

The way to learn swimming or golf or tennis or supervision is to take lessons from a "pro." Administrative competence is best learned from those who are themselves administratively competent. There are a lot of other things one can do to improve his game, but there is no real substitute for this one.

Part II: The Executive

Someone has described management succession as follows: "The president retires or dies and creates a vacuum into which is swept the nearest vice president who hasn't had a coronary."

The description, I think, implies two things: (1) succession has not been planned, and (2) the successor may not have sufficient administrative competence to handle the presidency with distinction. No doubt the same situation occurs elsewhere in the executive hierarchy.

Last evening we talked about acquiring administrative competence primarily at the first-line supervisory level. We pointed out, however, that the principles set forth are equally applicable to higher administrative positions. In like manner, most of the points to be discussed this evening are applicable to first-line supervision.

We are still talking about the boss, "the man we work for." In addition we are talking about his boss, "the man he works for," and so on up the line.

The biggest promotional step a man takes is when he steps out of the rank and file into his first supervisory position. He acquires a new set of problems, different from those he has had before. No longer is he responsible just for his own work. He now acquires responsibility for the work of others whose efforts he has to elicit and direct. That this is difficult may be inferred from an oft-repeated remark, "It's just easier to do this myself than to get the others to do it." This, of course, is a confession of supervisory weakness, or administrative incompetence.

It is in this first position that he encounters the problems and responsibilities of power and authority, the need to understand employe goals, the need to know what causes employes to collaborate and to do their best work. It is in this job that he first learns about the problem of earned acceptance. It is here that he demonstrates administrative behavior built upon the foundations of the basic rights of man as employe.

Later promotions which place a man at higher points on the organization chart do not cause him to encounter fundamentally different or unique problems. It is "more of same." The responsibilities may be greater, the human problems may be intensified at times, and the stakes may be greater, but executive problems are essentially supervisory problems. Of course, executives *are* supervisors. They are supervisors who supervise other supervisors, and get more money and better offices.

The greatest danger or risk in appointing a man to an executive post—and by this I mean any post up the line that is generally regarded as being important—is that the man will change. If he has been selected for the right reasons then we no doubt like him the way he is. He has been appointed (1) because he is the kind of man he is, and (2) because we like the way he has been operating up to now. This is not to say that we want him to stop growing.

Promotion has a way of affecting some men adversely, and it is not always predictable. If it were, one probably would not make the promotion. A few develop overnight a superiority complex arising from increased status and they become unbearably important. It is especially during this first year of occupancy of the new executive position that one should include in his nightly prayers a plea for the gift of humility. It is during the early stages particularly that he should continuously examine his daily life. You know the expression, "Even your best friend won't tell you." That must not be the case here. One must insist that his best friend be especially watchful, especially discerning, especially candid, at all times truthful. I suspect that this is not an orthodox approach to "executive development" but we can forego a lot of things that comprise such programs if we can succeed in getting a man to engage in prayer, in introspection and self-evaluation, and if we can persuade him to seek truth from best friends. A little of this is worth a flock of seminars. I think I am being practical and not starry-eyed in saying these things.

What is the first thing you think of when you hear the word *executive*? "He's an executive!" I've heard some say, "He's a big shot who gets other people to do all the work, and then takes all the credit himself." The first part of this is not too bad; the second is obviously to be deplored. One I like is this, "An executive is a man who can take a two-hour lunch period without hindering production." This contains an important idea, although it can also be interpreted in a snide sort of way. I choose to think that it means that this man gets a lot of his work done by delegating. So let's talk about delegation. We may set up widely differing kinds of executive training programs but, whatever the plan, we do not neglect "principles of delegation."

I have discovered why a lot of junior officers in banks aren't very good executives. This is earth-shaking, so listen carefully because I don't want to say it too loud. The reason is that their vice presidents don't permit them to be good executives. The vice presidents don't delegate. They have to make every important decision themselves. This being the case, the first step in a program of executive development is to work on the development of existing vice presidents. I am not being facetious. Quite the contrary, I am speaking with great seriousness. There isn't much point teaching juniors in some training program how to do all the things their bosses won't let them do.

Delegation is not just a simple matter of giving a subordinate a job to do. Newman, in his book "Administrative Action" has described the process as consisting of three aspects:

1 The assignment of duties by an executive to his immediate subordinates.
2 The granting of permission (authority) to make commitments, use resources, and take other actions necessary to perform the duties.
3 The creation of an obligation (responsibility) on the part of each subordinate to the executive for the satisfactory performance of the duties.[1]

Stated in simple operating terms it might go something like this: Assign duties to a subordinate, give him the necessary authority to carry them out, and hold him accountable for results. It is to be noted that while the process creates an obligation or responsibility for the subordinate, the act of delegation does not relieve the boss of his own responsibility for the results. For example, my boss hands me a job, I delegate it to a subordinate, and for some reason proper results are not obtained. My boss holds me accountable, I am still responsible. I can't say to him, "Sorry, my subordinate didn't produce." His answer quite properly is, "But isn't that your problem?"

This is no doubt one reason, but not the only one, for the failure of many executives to delegate. A boss is afraid the subordinate will not come up with first-class results, and it is he who must account for results to his boss. Delegation is therefore a risk-taking process. Bosses have to assume these risks. Through proper training of subordinates they are able to minimize the risks. The way to administrative security is through good training and well-placed confidence. The security which comes when a boss does everything himself is temporary, illusory, and self-defeating. It is bad for him, bad for subordinates, and bad for the organization. If a boss is to be administratively competent he must delegate. Administration is a hollow term indeed if it does not include this.

I am not here trying to suggest any patterned program for training in delegation because I know that there are numerous approaches possible. I do feel that any program must:

1. Convey a sense of its importance, and
2. Portray clearly its nature, extent, and limitations.

Finally, I believe quite strongly that the way to learn delegation is to delegate. I may add that in our own bank one of the first questions we raise in appraising an officer is, "Does he work with and through people by delegating, and do people grow under his leadership?"

Perhaps light may be shed on other aspects of administrative competence by citing another question we raise. In the area of organizational ability we ask, "Does he have the ability *to size up a task*, to organize, and lead others in accomplishing it?"

A great deal is implied in the expression "to size up." Have you ever had experience with executives who can't distinguish between a major and a minor problem? They come in three varieties: (a) those who treat all problems as major, (b) those who treat all problems as minor, and (c) those who unerringly bet on the wrong horse every time. Any one of these is guaranteed to give a supervisor under him or a boss over him an administrative pain in the neck.

When we say that administrative competence implies the use of good judgment we include the ability to determine such things as relative order of importance and magnitude, relative urgency, and a sense of timing or timeliness—when action

[1] **Administrative Action,** by William H. Newman, Prentice-Hall.

may be taken and when it may be wiser to postpone. I hope the panelists know how to work all this into a training program better than I do. I feel confident they do.

It may seem like "carrying coals to Newcastle" to call attention to the business of *decision-making* because, of course, this is basic to the administrative process. But then, we are discussing basics rather than examining footnotes or mulling over the fine print.

Disregarding for the moment all that goes into, or builds up to, the making of a decision, it should go without saying that a decision should be made *decisively*. The die is cast—this is it—for better or for worse. If it turns out badly, we do something to correct it. No decision of any importance is riskless, and the decision-maker assumes the risk with confidence, boldness, courage, or whatever it takes to be decisive. No shilly-shallying.

There is a story about the great baseball umpire Bill Klem that always appealed to me. Bill responded to the question, "Is it true that big league umpires *always* call 'em the way they see 'em?" by saying, "Well that may be true of most of them, but not me. *I call 'em the way they are!*" I don't believe bosses can be that good or that sure, but we certainly should call 'em as we see 'em, and with something approaching the self-confidence of Bill Klem. This behavior doesn't have to be inconsistent with a spirit of humility. It is not the way of the scientist, but it is the way of the competent administrator. Scientists usually can postpone final judgments until all the evidence is in, and even then they come up with guarded and tentative conclusions. Not so with the boss. He often must act *now,* with what he has to go on. This is why administration is so difficult. This is why mistakes are made, mistakes that must be corrected. We must remember, however, that *not to act is itself a decision.* It too can be wrong.

You noted above that I said "for the moment we would disregard all that goes into, or builds up to, the making of a decision." Now let's regard it. Decisions aren't to be pulled out of hats or out of thin air. Decisions stem from a man's judgment, from his interpretation of facts, from information and data obtained from many sources, not the least of which may be his own experience.

Cues to training may be spotted from an examination of the sources of information the boss may use in preparing for the decision. He learns much from personal and direct observation. He must, therefore, become a trained observer—of facts, events, behavior. He receives reports—from above and below; from across, thinking of staff functions; and from outside. This is all part of "keeping currently informed."

Many day-to-day reports are oral. The boss has to be a good listener, and believe me this takes self-control and requires training—especially for bosses. He has to be skillful in asking questions, and this too takes training. (A good boss isn't a man who knows all the answers; he's a man who asks the right questions.) He receives accounting and statistical reports. He must, therefore, be trained in their interpretation—no mean accomplishment. Keeping informed, making use of many resources, both internal and external, is one of the most time-consuming tasks of the boss.

In all this I have spoken as though he is always on the receiving end. But the boss we are talking about also has his boss. So he is on the sending end too. If his boss is to be a good listener, he has to be a good talker, even a persuader. He has to be a skilled reporter of facts, events, behavior. He has to give accurate answers to the questions, honest answers. He has to be skilled in preparing and presenting accounting and statistical data, skilled in making complex information meaningful.

Reporting is subject to special hazards and weaknesses that can be overcome only when the climate is right. It is human to tell the boss only what we think he *wants* to hear. It leads to omitting, distorting, or suppressing what he *ought* to hear. We tend to pass on information which is to our own credit. If decision-making in the organization is to be first-class, the rule and the practice has to be "the truth, the whole truth, and nothing but the truth." This is possible only where relationships are characterized by mutual respect and mutual understanding, and where all parties feel genuinely identified with the organization—a very important cue to training.

We see, therefore, that administration is in large measure a process of communicating. We have to communicate what we are trying to do, why we are doing it, how we are getting it done, and how good or bad it is after we have done it. And it goes three ways—upwards, downwards, and sidewards. We communicate not just information. We communicate attitudes, feelings, motives. Motivation itself is a communicating process, and one of the most important of managerial responsibilities. Using the words of one of our Philadelphia friends, Dale Purves,

> "It seems to me to make very little difference indeed whether you are running a big show or a little show—you have to provide effective communication all the time and it has to be alive. And it has to make sense."

Both last evening and this we have included in our story of administrative competence the responsibility of the boss to help his subordinates attain their objectives. Among these are the goals of more money, increased status, and promotion to jobs of higher responsibilities. The fulfillment of this general area of obligation requires specialized knowledge and considerable wisdom. The boss should act in accordance with *principles* and *criteria generally understood by all.* This is not a place for haphazardness or personalizing. It provides no opportunity for "playing good-fellow." Salary increases and promotions are earned. They should come as proper reward in due course. The boss is not doing something *for* his subordinates; he has continuously been helping them, guiding them, providing opportunities and setting the climate for them *to effect their own improvement.* His accompanying task is to *observe* and *evaluate* their performance and *reward accordingly.* His is the job of seeing that each person *receives his due* within the framework of the rules of the game. While objectivity is desirable, it probably is impossible of attainment. But in no other aspect of his job does he have so great an obligation to try to keep his biases under control. I guess that all this points to the necessity for training in sound salary administration and employe appraisal or "performance rating." It points to more than this. We can see clearly that administrative competence in this field calls for the boss to have an honest understanding of his own motives, biases, and prejudices. I am not sure that this understanding is obtained in programs of training. It may well be that the boss has to back himself into a corner and think through his actions, decisions, behavior, and especially his motives—in utter solitude. Meditation may well be one of our best managerial techniques.

I should now like to steer off the main course for a few moments. As you may have surmised by now I am a great believer in and strong advocate for on-the-job training under skillful guidance. I now want to put in a big pitch for off-the-job training, particularly self-training. We often hear it said that "You can't learn this or that by reading books." We have to agree that reading books isn't everything—but *it sure is something*. I don't personally know a single first-class executive who doesn't spend a great deal of his time reading. This includes both general and specialized reading. Every field of human endeavor has a literature, some of it classic. Every field also has its trash, so we should be discriminating in our selection. It may be true that not all the great ideas have been written up in books and journals, but there are a lot more of them than any of us will ever be able to use. A training program for executives or supervisors is no substitute for a carefully chosen reading program, assuming that the individual can and will think through what he reads. I would never trust the formulation of any training program to a man who himself doesn't do a substantial amount of good reading. Why shouldn't those "in training" do a lot of the reading for themselves—instead of having it all digested for them by portrayals on flannel boards, strip films, and movies? I am not opposed to these. But my reply to "Book-learning isn't everything" is, "Neither are visual aids." Such aids are supposed to be, and often are, aids to learning. But isn't it often true that they are also props for the lazy?

There is a question that I have often asked bankers which I now ask you. People in the field of, say, credit administration seem to believe that it is important to read good books that comprise the literature in this field, and to keep up to date by reading the leading journals. So with trust administration, and other technical banking fields. Yet, these banking bosses are also managers and every one is a personnel man too. Now the question, "Why isn't it just as important in the fulfillment of the *whole* job to be up on the literature of personnel administration and general management?" Is it that there isn't time for everything? Remember that boss-failure is usually not due to technical incompetence. Most failures are in the areas of personnel administration, human relationships, and general administration. Why read only in the field of our strengths? Shouldn't we work on the weak spots? What is the answer to the question?

Along with reading, I place writing and speaking. How many executives do you know who can't write well? How many are able to put their thoughts on paper, clearly and persuasively? How many of you have ever been on a conference or convention program committee and had the job of finding speakers for your program? Remember the comments, "He's a good banker, but a lousy speaker; let's not have him." I guess most people know a few bank executives who simply murder the language. Of course, one doesn't expect every executive or administrator to stand up on his feet and "wow" an audience, or to be a Demosthenes at the meeting of the county bankers association, or to write for the *Atlantic Monthly*. But isn't it part of his job of communicating to write and to speak in clear, effective, and grammatical English? I think it is, and I think it points to something in the formulation of training programs, or just training without programs.

Melvin Copeland, of the Harvard Business School, has written a book called "The Executive at Work." In his chapter entitled the "Rewards of Management" he makes an analysis of why the supply of competent top executives is so thin. He gives two primary reasons, one of which I think we would guess—not many people want to assume the risk of too much responsibility. It doesn't make for the most comfortable and secure kind of life. The second one, however, I would not have thought of; and yet it is a reasonable and fairly obvious answer. I cite it because it suggests another facet in achieving administrative competence. Here is what he says:

> "The first of the reasons to be suggested is the dearth of men with *multiple track minds*, men who can switch with facility from one problem to another and still maintain a reasonably high batting average on the variety of decisions to be made. Lower in the ranks it is difficult to find men with even two-track minds."

Problems just do not come to the executive one at a time. His way of working cannot be that of coping with one problem until it is solved, then moving on to number two to its solution, then to number three, and so on. He has to juggle a number of balls in the air at one time. Typically, he has to stop in the middle of one problem, tackle a new and more urgent one that has just come in, solve it, and go back to the first one. His problems cover a wide variety of fields. One minute he is considering a loan application, the next minute he is faced with an urgent personnel problem involving a member of his staff. He then looks at his watch only to note that he is due at a group conference to consider the purchase of some new business machines. Meanwhile he has answered three telephone calls, including one from his wife asking the whereabouts of the car keys. This is no job for the man with the one-track mind. This is no job for the man who believes one can work on only one problem at a time. It is no job for the man who can't cope with variety, who can't change his pace, who can't stand up under the pressure of quick changes of scene. It is my view that a man can learn to juggle balls in the air. But he has to be interested, he has to have a will to do it, and he has to practice. He must remain patient, believing in himself, "Even this I can learn." Most people just don't want to. A lot of people would become fairly good musicians if they would weather the first-year ordeal of practicing their scales. Too many are discouraged by the hurdles of the early stages. Of course it *is* true that some have greater innate talents than others, but it is also true that some of the less talented become pretty good players because they aren't afraid to work. So it is in achieving administrative competence.

In drawing to a close I should like to set forth what I believe to be some of the essential and desirable characteristics of business leadership. These beliefs are drawn from personal observation. My working hours are spent in a fairly large organization, and from where I sit I come to know a good number of men who play important roles in our economic and business life. I have often asked myself, "What is it that these men really have?" Here are my conclusions.

The first is *technical competence*, a term which covers more territory than appears at first blush. The executive is usually competent in one or more specialized fields. In the plying of his own profession he is "good in his own right." In the *heading* of an organization, however, he demonstrates his recognition of his own strengths and limitations. He realizes that the organization is too complex for him to be able to excel in all the fields which enter into the business. Therefore, he selects and trains capable subordinates, and really delegates. His big task is in the field of planning and coordinating and controlling the activities which comprise the business. This is all part of technical competence.

Second, business leadership calls for a *broad, intellectual outlook*. We have passed through an extended period in which businessmen have placed primary emphasis upon technical competence. They have looked for trained men rather than educated men. But today they are becoming increasingly convinced that tomorrow's leaders must come from the ranks of educated men. We could spend a great deal of time describing what companies are doing to awaken and develop the intellectual and spiritual powers of young-comers so that they will become, in the words of John Stuart Mill, "capable and cultivated human beings."

Third—and here we move into the field of moral values—I have observed that the most admirable and the most effective business leaders are men who have a *highly developed sense of honor*. They do not lose sight of moral and spiritual values in their business life; in fact, they are motivated and guided by them. We may be cynical and point to some who are selfish, unscrupulous, even crooked. These are "lesser men" and are so regarded by all clear-thinking individuals.

Fourth, and related to the previous point, is the business leader's *concern for the public interest*. The corporation executive whose philosophy is "the public be damned" is today a rare bird. In the first place, it simply isn't a workable philosophy in this day and age—if in any age. More important, however, is that the business leader today thinks and works in the public interest because he feels *it is right* to do so. The days of the publicly irresponsible executive are, if not over, at least numbered.

Fifth, we come finally to the field in which all leaders have to excel, or sooner or later fail to retain their positions of leadership—the *field of human relationships*. The great problems of the age—international, national, and corporate—have to do with the relationships of people. There can be no peace among nations, no political peace at home, no industrial peace, without the cooperation and collaboration of men of good will. Securing the cooperation of men of diverse interests requires the exercise of the highest kind of social skill. It is the skill which, perhaps more than others, is the distinguishing characteristic of the business leader. This skill, however, is almost certainly impossible of attainment unless it rests upon a foundation of the other qualities and accomplishments which I have enumerated. What are they again?

1. Technical competence.
2. Broad intellectual outlook.
3. High sense of honor.
4. Attention to the public interest.
5. Understanding and appreciation of human relationships.

There can be little progress in the achievement of administrative competence unless it is made along all five of these lines. These are the stars to which we must hitch our wagon. Difficult, of course. But we should be encouraged by the poet Robert Browning, who says to us: "Ah, but a man's reach should exceed his grasp."