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I N T E R O F F I C E M E M O R A N D U M

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Subject: MORE ON MANAGEMENT MANUALS

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As we develop the management manuals for the unit managers and for the business units, we should carefully phrase what we feel are the most important principles of management.

One of the most important concepts which seems to be least understood in American business and rarely discussed is the management of overhead. We've seen in the last number of years, among the nations' best companies, massive development of overhead in good times and gross firings when times slow down. The management of overhead must be one of the most significant gaps in American management thinking.

Because it is normally not clearly spelled out as a responsibility for managers, their principles take over which mushroom overhead. First of all, we pay people in proportion to the size of their budget and the number of people working for them. If someone does a job for one million dollars, they obviously get paid a lot less than someone who does the same job but spends ten million dollars.

The other personnel principle in this country is that if you can do a job with ten people you would get paid relatively low, but if somehow you can make that job take a thousand people, you are obviously worth a tremendous amount more.

The next principle that has evolved in American business is that managers, supervisors, and, indeed, workers have rights to certain overhead such as secretaries, assistants, computers, reports, financial analysts, and personnel people.

Another unwritten principle that unfortunately has developed is that each group has a right to be equal to other groups as far as expenditure of overhead. If other groups have things, your group obviously deserves them.

It is also believed in modern American management that any data

or any report one can think of generating obviously has to be done, and the data and the reports are more important than the economy of getting a job done.

Because it is never specifically stated otherwise, there is a belief that managers have the right to keep growing overhead, but when hard times come and mistakes have to be corrected, it is not their responsibility to do anything. They have the right to grow overhead, but they have no obligation to take care of it. The Corporation has to do this by mass firing or by overall policies that would pay people to leave. This, of course, because it's not managed, means losing the best people.

It is also believed in modern American management that one's responsibility has to increase every year. I see this in non-profit organizations. Many of them were very effectively run with part-time volunteers for many years. When a full-time staff was hired, the staff had the traditional American concept of growth and responsibility which means overhead in a non-profit organization mushrooms year after year because it's the only way professional managers can grow in responsibility. The result is that soon, little by little, the good things that the non-profit organization was formed to accomplish disappear, and all the funds go into overhead. The same thing is true within business. Overhead functions to meet the American growth syndrome have to grow. They grow when things are good, and they also grow in proportion when the staff is cut back because it's the overhead people who cut the staff and they never cut their own.

I think it is of the utmost importance that we develop, maybe first of all, a statement of overhead policy for our management manuals. Clearly there is a responsibility of the manager to control overhead, to eliminate any of it that is not absolutely necessary, and to always keep it in balance with the job.

It is equally clear that the reporting system, within the Corporation, has to identify the overhead and measure it relative to the job being done and the importance of the job. If the job is not important, it obviously should be cleaned out with all its overhead.

The reward system should also drop the historical, traditional measure of number of people and budget in paying people, but instead reward people for efficiency and how well a job is done. We should never hire a compensation consultant whose formula, first of all, includes the size of the budget and the number of people working for an individual. But even more important, we should have a clear statement of just what our policy is.

KHO:dao

KO:3266

Dictated on 8/3/89, but not read

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