

ORGANIZING MR. SLOAN

The creation of the modern
organization

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At every stage in human evolution, from the Greeks and Romans to modern-day CEOs, people have considered the best ways to organize themselves. Some have been more successful than others. For example, at their peak, the Incas controlled six million people spread over a huge area covering parts of modern Peru, Ecuador, Chile, Bolivia and Argentina. They spoke many different languages and dialects. How to manage them and their lands was a little bit more problematical than contemplating how to manage a distant subsidiary.

The Incas had the advantage that force was one possibility. But, interestingly, their more peaceful means of persuasion were preludes to later organizational behavior. The Incas decided on a highly standardized system of administration. This was based on units of ten and was the forerunner of the modern decimal system. To make sense of their land they divided them into four quarters – “suyus” – which met at the Inca capital, Cuzco.

The Incas also invested heavily in infrastructure. Their road system eventually covered over 23,000 km. The road system meant that the army could move quickly to sort out trouble and that goods could move equally speedily. And all this was achieved at a time when the Incas had no vehicles with wheels.

The road system was combined with a highly complex logistical network. This was made up of way stations, imperial centers, forts, ceremonial centers and other meeting and gathering points. Runners were specially

trained to pass on messages. The system worked, but briefly: the Inca empire only functioned for one hundred years.

Modern corporations dreams of such longevity. But, their understanding of the intricacies of organization was not helped by the unwillingness of management pioneers to contemplate organization as a serious issue worthy of contemplation. Henry Ford's view of how to organize his industrial giant was one dimensional – if it existed at all. Ford was a car man with a vision. He chose, therefore, to wrestle with the matters directly connected to delivering his vision into reality -- the mechanical intricacies of production, cost control and the product. Ford's achievement was one of production over management; of ambition rather than organization. He succeeded in building a business empire without management (or so he thought) and without a carefully – or even casually -- formulated structure.

Frederick Taylor was similarly purblind to organizational issues. He considered that perfect tasks led to perfect processes which largely provided the structure necessary for a company to thrive.

With Taylor and Ford unhelpfully mute on the subject of the nature of organization, it took a German sociologist, Max Weber (1864-1920), to consider the organizational implications of their theories and practice. Weber looked around and noted the industrial trends, the factories with their supervisors and middle managers; the sheer scale of the new operations. Then, Weber envisaged the future of the organization. If

these trends were to continue to develop what would be the best way of organizing a business?

Weber's conclusions did not make for pleasant reading. His vision of the future, encapsulated in *The Theory of Social and Economic Organisation* (published four years after Weber's death in 1924) suggested that the depersonalizing effects of industrial growth were inevitable.

While Karl Marx saw industrialization as trampling over the rights to the ownership of labor, Weber offered a more pragmatic view – the subjugation of individuals to organizations was reality; not a stepping stone to proletarian utopia. Large organizations required that the people involved put the cause of the organization before their own aspirations – and it didn't matter whether the organization was building pyramids, fighting battles or making widgets.

According to Weber, the ultimate form of organization in the newly industrialized world was the bureaucratic system. This, as envisaged by Weber, was impersonal. People got on with their work. It was entirely hierarchical – “The organization of offices follows the principle of hierarchy; that is, each lower office is under the control and supervision of a higher one”. It was remorselessly rational with carefully structured promotions and demarcations. The organization operated as a machine. Each cog in the system - each bureaucrat – fulfilled a clearly defined role.

The machine's aim was to work efficiently. No more; no less. Efficient machines were productive and, therefore, profitable. Weber said that the

bureaucratic system was characterized by hierarchy; impersonality; written rules of conduct; promotion based on achievement; specialized division of labor; and efficiency. Weber did not advocate the bureaucratic system; he simply described it.

Unfortunately, in some respects, the nightmare came to pass. Henry Ford was not alone. Corporations were routinely organized in ways similar to those imagined by Weber. The bureaucratic model built on unquestioning loyalty, subjugation and stultifying hierarchies became the organizational role model.

Organizational thinking

While the nature of organization failed to spark interest from Taylor and Ford, many other contemporary theorists and practitioners were contemplating organizational issues. Organizational charts had been in use since the building of the railroads and the fledgling executive education world had begun to explore organizational issues more systematically. In 1909 at Harvard Business School Russell Robb gave a series of lectures on organizations. His approach merged military models with the new industrial reality. "All organizations will differ somewhat from each other, because the objects, the results that are sought and the way these results must be attained, are different," said Robb. "There is no royal road, no formula that, once learned, may be applied in all cases with the assurance that the result will be perfect harmony, efficiency, and economy, and a sure path to the main purpose in view."

One of those who may have been in Robb's audience was Chester Barnard (1886-1961). Barnard had won a scholarship to Harvard to study economics. He dutifully and fruitfully attended Harvard from 1906 until 1909 but failed to receive a degree because he lacked a laboratory science. He left and joined the statistical department at AT&T.

Barnard stands out among the theorists and practitioners of management during the twentieth century in that he is one of the few who managed to bridge the divide between theory and practice. He was a highly successful practitioner and an innovative theorist.

As a practitioner, Barnard's move to AT&T sealed the fate of his professional career. He spent his entire working life with the company, eventually becoming president of New Jersey Bell in 1927.

Though he was the archetypal corporate man, Barnard's interests were varied. During World War Two, he worked as special assistant to the Secretary of the Treasury and co-wrote a report which formed the basis of US atomic energy policy. Barnard also found time to lecture on the subject of management.

His best known book, *The Functions of the Executive*, was based on eight of Barnard's lectures. The language is dated, the approach ornate, but comprehensive. (It was last resurrected by Peters and Waterman in their 1982 bestseller *In Search of Excellence* who noted: "Its density makes it virtually unreadable; nonetheless it is a monument.")

Indeed, much of what Barnard argued, strikes a chord with contemporary management thinking. He was the first to elevate rational decision making to the professional heart of management. In addition, he highlighted the need for communication -- he believed that everyone needs to know what and where the communications channels are so that every single person can be tied into the organization's objectives. He also advocated lines of communication which were short and direct.

To Barnard the chief executive was not a dictatorial figure geared to simple short-term achievements. Instead, part of his responsibility was to nurture the values and goals of the organization. Barnard argued that values and goals need to be translated into action rather than meaningless motivational phraseology. Barnard took what would today be called a holistic approach arguing that "in a community all acts of individuals and of organizations are directly or indirectly interconnected and interdependent".

Barnard regarded the commercial organization simply as a means of allowing people to achieve what they could not achieve when merely individuals. He defined an organization as a "system of consciously coordinated activities of forces of two or more persons". For all his contemporary sounding ideas, Barnard was a man of his times - advocating corporate domination of the individual and regarding loyalty to the organization as paramount.

Even so, Barnard proposed a moral dimension to the world of work (one which Taylor certainly did not recognize). In arguing that there was a

morality to management, Barnard played an important part in broadening the managerial role from one simply of measurement, control and supervision, to one also concerned with more elusive, abstract notions, such as values and organization.

From Billy to Mr. Sloan

Henry Ford wasn't alone in pursuing the automotive dream. One of his early competitors was a Scottish ex-plumber, David Buick (1854-1929). Buick caught the car making bug in 1899 and formed the Buick Manufacturing Company in 1902. His company, like many of the others, struggled – despite Buick putting his plumbing training to innovative use with the first valve-in-head engine and windshields. In desperation, Buick sent one of his engineers to Flint, Michigan, to extract some money from a more successful carriage and wagon maker, the Flint Road Cart Company.

Buick's emissary took one of the company partners out for a ride in the Buick. The other partner was less malleable, refusing all entreaties to have a drive. The Buick engineer wooed him through sheer persistence - - driving up and down outside his house and then returning next day. Eventually, the partner buckled. Only when he was in the car did he realize that he was not being sold a single Buick; he was being offered a share of the company.

The intractable partner was Billy Durant (1861-1947). He liked the Buick so much he bought the company. Durant predicted that one day 500,000

cars a year would be bought. In response, a banker said: "If he has any sense, he'll keep those notions to himself if he ever tries to borrow money."

The banker was right. William Crapo Durant was a novice. But then again everyone was a novice in the car business. At least Durant was in a related field -- his successful business made horse-drawn carriages.

Durant took to car-making. Under Durant, in three years production mushroomed from a mere 37 cars – not bad for a plumber it should be said -- to 8,000. He created the General Motors Company by merging Oldsmobile and Buick.

One deal followed another. Next, in 1909, came the Oakland Motor Car Company. Oakland was later renamed after one of its top performing vehicles (renowned for its hill climbing): the Pontiac. Then came the \$4.5 million purchase of Cadillac.

The boom couldn't last. As the Model T swept the world, sales of other vehicles collapsed. In 1910 18 car makers disappeared. GM had to sell off some of its companies at a loss, and Durant was forced out.

Between 1917 and 1919, the du Ponts paid \$49 million for 29 percent of GM. (They later added a further \$84 million of GM stock to this investment. It proved an outstandingly astute investment. When, in 1962, they began divesting GM shares they had received \$2 billion in dividends and the shares were worth over \$3 billion.)

The modern executive

Watching, working and waiting in the wings as Durant flared like a brilliant entrepreneurial comet was Alfred Pritchard Sloan, Jr. (1875-1966). Sloan was precociously brilliant. He initially failed to get into the Massachusetts Institute of Technology because he was thought to be too young. When he was allowed in, to study electrical engineering, he was the youngest member of his class.

Sloan then began his working career as a draftsman in a small machine shop, the Hyatt Roller Bearing Company of Newark, New Jersey. His influence, in spite of his age, was immediate. He pointed the company towards making antifriction bearings for cars and, in 1899 when still only 24, Sloan became the company's president. Hyatt was a beneficiary of the huge expansion in the car industry. Its bearings became the industry standard and it grew rapidly.

In 1916 Hyatt merged with the United Motors Corporation. A variety of other car industry suppliers also joined the company and Sloan became president. In 1918, United Motors was acquired by General Motors, and Sloan became vice president in charge of accessories and a member of GM's Executive Committee.

Sloan, considered and intellectually rigorous, worked closely with the dedicatedly entrepreneurial Durant. While Sloan recognized Durant's virtues, he was also sure that Durant's management style was a thing of the past. It had helped get GM to where it was, but was ill-suited to

enable it to cope with the challenges Sloan's envisaged it encountering in the future.

Central to Sloan's concern about Durant's approach was the issue of organization. Durant had helped create a corporate colossus, but one which was largely unmanageable. Towards the end of Durant's period with the company, Sloan suggested that it would be beneficial to examine the way the organization worked. His proposed "organization study" was rejected by Durant. But, when Pierre du Pont (1870-1954) took over the reins in 1920, he approved Sloan's plan to examine how and why the company was organized.

Sloan's examination of the company's organization was to prove the foundation for the achievements of the rest of his career. In 1923, Sloan became the company's president. Sloan replaced Durant's erratic, one-man leadership with clearly formulated policies and talented executives. Over five decades, he re-shaped General Motors and reinvented how it was managed.

His major achievements were twofold. First, Sloan created a new cadre of highly professional, dispassionate, intelligent managers, who made decisions on the basis of the information available rather than always following their intuition. Decision making was the heart of management – as Chester Barnard argued. Sloan was the first great professional manager. "As exemplified by Sloan, the executive is a professional first and foremost: objective, dispassionate, open-minded. His insistence on

facts, on ample documentation, on considering all sides of a question, prevent his being opinionated, let alone bigoted,” wrote Peter Drucker.

Sloan, trained as an engineer, was driven by a love of systematic reasoning, of weighing up the pros and cons then making a decision. He turned managerial decision-making from a tumultuous, spontaneous art into an informed, commercially-driven process. He took the amateurism (and some of the fun) out of business and replaced it with sobre, respectable, professionalism.

Organizing the collosus

Sloan’s second achievement was no less important. He created a new organizational form, a means of managing Durant’s meandering colossus. The fruit of Sloan’s organization study was an organizational model which combined decentralized operations with coordinated centralized policy control.

As a result of his organization study, in the early 1920s Sloan organized the company into eight divisions -- five car divisions and three component divisions. In the jargon (invented 50 years later) they were strategic business units.

Previously GM cars had competed for the same markets; to prevent that, Sloan gave each car division its own price and style categories. He also introduced annual model changes, creating a market for used cars. Each car division became an independent brand.

While Ford remained fixated on the Model T, GM moved progressively forward. The company's model changes were backed by extensive and carefully planned research, development, and testing. The 1920s saw the introduction of Buick's four-wheel brakes (1923), the Cadillac's shatter-resistant safety glass (1926), chromium plating, automatic engine temperature control, hydraulic shock absorbers, automatic choking, adjustable front seats, and numerous advances in performance, dependability, and manufacturing technology.

After years of the simple Model T, the car buying public embraced GM's innovations with enthusiasm. The one millionth Buick was built in 1923; the five millionth GM car was a 1926 Pontiac. In 1927, GM vehicles outsold Fords for the first time. By 1931, Oldsmobile's new 85-acre complex in Lansing, Michigan, could send a new car off the line every 41 seconds, shipping 800 cars a day. And, the beauty of it all was that costs fell as volume increased.

As GM thrived, its organization took firmer shape. Each of the company's units was made responsible for all their commercial operations. Each had their own engineering, production and sales departments, but was supervised by a central staff responsible for overall policy and finance. The operating units were semi-autonomous, charged with maintaining market share and sustaining profitability in their particular area. In a particularly innovative move, the components divisions not only sold products to other GM companies, but also to external companies.

Meanwhile the company's headquarters was kept to a manageable size. Its business was number crunching. Using the systems devised by Du Pont the center could carefully measure and keep up-to-date with the return-on-assets performance of each and every division. GM's chief financial officer, Donaldson Brown, was another key figure in the emergence of the company from Ford's shadow.

Sloan's organizational model gave business units far more responsibility than they had ever before. The clarification of who was responsible for what was central to his approach. Once responsibilities were decided on, Sloan believed that it was inappropriate, as well as unnecessary, for top managers at the corporate level to know much about the details of division operations. Poor performance led to changes in management at divisional level. Simple as that. For this reason Sloan invested a great deal of time in personnel selection. If GM got it right in the first place, the divisional chiefs should be up to standard. Good performers were promoted and, eventually, found themselves based at GM HQ.

Sloan's multi-divisional form meant that executives had more time to concentrate on strategic issues and operational decisions were made by people in the front line rather than at a distant headquarters. It required a continuous balancing act. But it worked.

In effect, Sloan utilized the company's size without making it cumbersome. Companies like Buick, Pontiac, and Cadillac retained their powerful feeling of independence and their individual brand identity. At the same time, GM as a whole, offered a coherent super-structure.

The multi-divisional form created a trend among large organizations for decentralization. While in 1950 around 20 percent of *Fortune 500* corporations were decentralized; this had increased to 80 percent by 1970.

One of the key supporters of this trend was Alfred Chandler. His classic book, *Strategy and Structure*, lauded Alfred Sloan's work at General Motors. Chandler argued that the chief advantage of the multi-divisional organization was that "it clearly removed the executives responsible for the destiny of the entire enterprise from the more routine operational responsibilities and so gave them the time, information and even psychological commitment for long-term planning and appraisal".

Another who celebrated GM was Peter Drucker. Drucker's connection with GM had begun in Fall 1943 when he took a call from the company's Paul Garrett. Out of the blue, Garrett invited Drucker to study the company. This effectively launched the career of the century's foremost management thinker. The resulting book, *Concept of the Corporation* (1946) was a groundbreaking examination of the intricate internal working of the company and revealed the auto-giant to be a labyrinthine social system rather than an economical machine.

After being celebrated as a managerial hero by both Chandler and Drucker, the deficiencies of Sloan's model gradually became apparent. The decentralized structure built up by Sloan revolved around a reporting and committee infrastructure which eventually became unwieldy. As time went by, more and more committees were set up. Stringent targets

and narrow measures of success stultified initiative. By the end of the 1960s the delicate balance, which Sloan had brilliantly maintained between centralization and decentralization, was lost -- finance emerged as the dominant function -- and GM became paralyzed by what had once made it great.

Sloan's organizational model was right for its time. It brought much needed clarity to organizational life. During the 1920s, 1930s and 1940s, it worked brilliantly. That GM failed to move forward from it was a fault of its more recent executives than the organizational model. Instead of a company building from Sloan's legacy, GM increasingly resembled a company with little idea what to do with the legacy. GM manifestly failed to live with its past, as surely as Ford failed to live with the inheritance of its founder.

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