Harvard Business Review

VOL. XXIX · NUMBER 3 · MAY 1951

Management's Responsibilities in a Complex World

By Frank W. Abrams

LIKE all vital, living things, the practice of business management is not static. It changes — sometimes at a relatively slow pace, sometimes more rapidly. I believe that a number of important changes have occurred in a comparatively brief recent period. These changes may not be widely and fully recognized. Yet they are important, not only to businessmen themselves but to all the other groups of our society who have a stake in the national economy, which means everyone.

Many businessmen, perhaps, have not been fully conscious of this evolution, simply because their day-to-day tasks keep their eyes so closely focused on their own particular part of the business picture. They do not have so much opportunity as they should to stand back and see it in its full dimensions.

Management Now a Profession

Briefly, it seems to me that business management in the United States is acquiring more and more the characteristics of a profession.

The hallmark of a profession is its sense of duty. None of the great, recognized professions is without a strong sense of responsibility to the community. Professional men do not work solely for themselves, but also for the good of mankind. The profession of medicine would not have the high standing it now enjoys if physicians did not observe the Hippocratic Oath of service. The legal profession would not be so highly regarded if it had not behind it a history of public service. The respect which the world gives to the teaching profession is not solely due to a respect for learning. It is also a salute to the men and women who have devoted themselves to one of the most important activities in society — the instruction of youth.

It is my belief that business managers are gaining in professional status partly because they see in their work the basic responsibilities that other professional men have long recognized in theirs. Businessmen are learning that they have responsibilities not just to one group but to many.

Because a large and well-established enterprise is accustomed to looking far into the future and making long-term decisions, it particularly needs broad social and political understanding as well as economic understanding.

The job of professional management, as I see it, is to conduct the affairs of the enterprise in its charge in such a way as to maintain an equitable and workable balance among the claims of the various directly interested groups. Business firms are man-made instruments of society. They can be made to achieve their greatest social usefulness — and thus their future can be best assured — when management succeeds in finding a harmonious balance among the claims of the various interested groups: the stockholders, employees, customers, and the public at large. But management's responsibility, in the broadest sense, extends beyond the search for a balance among respective claims. Management, as a good citizen, and because it cannot properly function in an acrimonious and contentious atmosphere, has the positive duty to work for peaceful relations and understanding among men — for a restoration of faith of men in each other in all walks of life.

We hear a lot about the American way of life, and the essential dignity of man. Faith in our fellow men is the only basis on which each and every one of us can live that democratic principle. Suspicion of our fellow men generally — or of any section of our fellow men because of race, economic group, or religion — is incompatible with the dignity and aspirations of men in a free society. This is a subject on which I feel keenly, and I am going to discuss it later on.

Interests of Stockholders

First, let us consider the interests of stockholders. As the owners of the business, they have invested their money in it and expect it to be run in such a way that they will receive a fair return, security, and a reasonable gain in the value of their equity as the industry grows.

Those two words, "fair" and "reasonable," mark the asserted claims not only of a corporation's stockholders but of all other groups as well. Very few groups ever believe that they make unfair or unreasonable claims. But often what one group thinks fair is regarded as entirely unreasonable by another. It takes professional judgment, experience, and knowledge of the consequences of specific decisions to resolve all the claims and to keep all the groups in cooperative support of the joint enterprise.

This reconciliation of interests is not always as difficult as it may seem. It is in part a matter of recognizing true long-term interests, as distinguished from interests that may seem real because they are more immediate.

There was a time, not so very long ago, when management thought of itself as being exclusively preoccupied with the stockholders' *immediate* interest. The stockholder, who had invested his capital in the enterprise, naturally had an interest in maximizing profits and dividends. As a general rule, therefore, management, as the stockholders' representative, vigorously contested the claims of labor for higher wages, and of customers for lower prices and better quality unless competition decreed otherwise. In that way higher profits and dividends, it was believed, could best be realized.

Let us examine that notion more closely to see whether such an attitude was really in the interest of the stockholder. It might have been if the stockholder was an in-and-out speculator. But if he was an investor, and had committed his capital for the purpose of acquiring an equity in a continuing enterprise that might grow and prosper over the years, then his interest might have been very badly served by such an attitude on the part of his management representatives.

Public approval is no less essential to the continued existence of today's kind of business than adequate capital, or efficient management. A satisfied and loyal group of employees, for instance, is an asset to the enterprise and its owners, of far greater value for its long-term success than many other items which carry a dollars-and-cents valuation in the balance sheet.

The Nature of Profits. Even profits, it has come to be realized, are not so much an immediate prerogative of stockholders as was once thought. True, in the accounting sense and in the legal sense, all profits accrue to the beneficial interest of shareholders, but that does not necessarily mean that shareholders receive in payment all of what is accounted as profits.

If management is to make good its responsibility to preserve the long-run interests of stockholders, it must produce job opportunities in which men can maximize their productivity. That takes money. The task is an impossible one without the availability of adequate profits, a large part of which are directly or indirectly reinvested.

It can thus be seen that profits are not simply a withdrawal from the business for the exclusive benefit of stockholders. Actually they are used in large part to make secure the competitive position of the enterprise by increasing the productivity of its workers and thus, as an all important by-product, increasing the real income of the nation.

Only by thinking of profits in these larger terms can management feel assured that it is doing an effective job in the stockholders' overall interest. Fortunately, in the long run, the stockholders' interest and the other interests of the community tend to coincide, and enlightened stockholders are seeing this more clearly all the time.

Management and Employees

Just as stockholders have invested their money, so, too, the men and women who work for a corporation have invested their time, their energies, and many of their hopes for security and happiness in their jobs. The employee's satisfaction comes not only from fair wages but from good working conditions — and also from opportunities for promotion and recognition as the business grows. But this is not all.

"The dignity of man" — the deep-seated desire to be treated like a worthy human being — has long been a foundation stone of our way of life. The claim of all employees to respect and consideration as human beings, with ambition and the capacity for self-improvement, poses a major responsibility for the management of any modern business. In fact, modern business management might well measure its success or failure as a profession in large part by the satisfaction and opportunities it is able to produce for its employees.

In the modern corporation the worker is no longer Check Number 273 of some department. He is John Wesley Jones or Michael Doroski. His satisfactions and his contribution to the success of the enterprise will be directly proportional to his understanding of the part he plays in its accomplishments, and to the opportunity that he has to participate and take pride in its progress.

In one of our affiliated companies, some years ago, there was a case of dissatisfaction among a group of workers. We knew the dissatisfaction existed, but we could not find out why. The management discussed many things with this group, including wages, and did not come anywhere near solving the problem. But some time later the president of that company was talking things over with the men and began to mention, in an informal way, some of the matters the board of directors had been dealing with. The men showed an immediate and extraordinary interest, and the source of their dissatisfaction was gradually revealed. They had been "left out of things." Needless to say, that situation was changed, and we are continually applying ourselves to means for keeping employees better informed.

In stressing the modern corporation's responsibilities to its employees, I am not advocating a program of paternalism. Businesses are in business to make money and not to stand in the place of parents, school, or church. But what I am saying is that no corporation can prosper for any length of time today if its sole purpose is to make as much money as possible, as quickly as possible, and without concern for other values. A modern corporation management, which has developed good social sense as well as good business sense, will accept the major responsibility to contribute to a satisfactory way of life for the men and women who work for it.

Management and the Customers

The customers make up a third group which has claims on business management. As any corporate manager knows, customers are in the driver's seat. They are very likely to demand and gain pretty much what they want. A large part of the skill and technique of management is devoted to the professional task of coordinating and synchronizing the capital of stockholders with the talents of workers in a manner that will most effectively give the customer what he wants — more and better products at reasonable prices.

It has long been accepted that large volumes at small margins — preferably with gradually declining prices — is a formula that has contributed to the success of American enterprise. Practice has not always conformed to the formula, but it has done so reasonably well. Competition has assured that result in American industry. But I think that in these times of great demands upon business and industry, and of threats to all freedom including economic freedom, it is appropriate to reaffirm our belief in competition and rededicate ourselves to practices that will aid in making it effective.

The oil industry offers many illustrations of providing better products at reasonable prices. For example, the average retail price of gasoline received by the vendor is about the same today as it was 25 years ago. Of course, that does not include the taxes paid on it by the consumer, which have increased more than threefold since then.

Furthermore, since the quality of gasoline has steadily improved in the last quarter of a century, the power delivered by two gallons of today's gasoline is equal to three gallons of 1925 motor fuel. While costs have materially advanced, the price of gasoline — less taxes — is about the same as it was although the quality is much better.

That is what I mean when I say that it is a responsibility of modern professional management to recognize the long-term claims of its customers to a better and better buy when they go to the market place for products. That is the way that the unprecedented achievements of American industry have been accomplished, and we must not for an instant lose sight of that principle.

During the last 50 years, especially, there have been times when the pressure on prices to advance or to contract violently has been great. Although many of the forces that make for inflation or deflation are outside the control of businessmen, I firmly believe that management, in the exercise of true business statesmanship, should do all in its power to dampen disruptive swings in the behavior of prices. Great instability is not in the interest of the stockholders or the employees — and it is certainly not in the interest of the customers.

Business management *does* have a responsibility to provide a flow of supplies needed to meet the requirements of the economy. Therefore, I believe, we must always try to foresee the results of a particular price change in terms of its effect on probable future supplies. It would be hard to show that the public interest is served by price changes that do not assist in stimulating either supply or demand, as one or the other may be needed from time to time.

Now these three groups that I have considered are the people with whom corporation managements have a direct and working contact. They are all very important. Each of their interests must be served and related one to the other, to the best of management's ability.

The General Public's Interest

But that is not the end of the story — the general public has a vital interest as well. Modern management must look beyond those groups of people that are immediately interested in the affairs of the business. It must understand that the general public — men and women everywhere — have a very deep interest in, and are affected by, what is going on. Contemporary management realizes that the actions it takes have definite and often far-reaching effects — effects that go beyond stockholders, employees, and customer.

The duty of business management to the general public is of a twofold nature. First, there is the obligation to keep the policies and actions of a particular business constantly in tune with national policies and interests, because in many cases a company is a very large factor in a community.

The second phase of this obligation to attend to the public interest arises out of the fact that the thing we call public interest is crystallized in public policy, and public policy has a very positive ultimate bearing on the success of the businesses that are entrusted to our care. We must participate in the formation of public policy even though the specific issues may not have an immediate influence on our individual businesses. Business historians will tell you that there was a time when businessmen shared the intellectual leadership of society with educators and churchmen. In recent decades the opportunity for intellectual leadership at times seems to have become confused with the urge to compete with other minority groups in special-interest pleading.

Participation in Public Attitudes

Business management cannot afford that indulgence. The geographical pioneering of this country's development is pretty much accomplished. Population has increased and shifted to the point where congestion occurs in many locations. The problems incident to increased population are accentuated by more rapid transportation and improved means of communication. People have been brought into closer association. Their opportunities for personal differences have multiplied.

It has become more important for us to learn how to live in harmony in a new kind of world. People now are more concerned with each other, and much less with the mastery of their physical environment. The importance of faith in our fellow men, and understanding among men, is thereby made the greater. Yet suspicion and acrimony exist among people and seem to be growing stronger. In words that have been attributed to Dean McIntosh of Barnard, "While man has brought his physical universe under control, he cannot manage the simple relations between himself and his fellows."

Well, then, what can be done about it? In my opinion, there is one thing that can be done, and that is to spend a lot more of our thought and our energies as business managers in working to achieve a redistribution of faith, and less in what has come to be a somewhat sterile discussion of a redistribution of wealth.

Management must apply to its relationships with the rest of the community the same type of searching analysis that it would make of its more usual business problems. It must do this in terms of what it knows, and can learn, about the basic wants and needs of men. After all, when you stop to think about it, it is absurd that business and the public, of which business is a part, should be regarded as being in conflict; or, again, that management should be opposed to labor's basic interest, and labor to management's.

All this may sound pretty idealistic. It is. But it also can be very practical. Trust among people can be recaptured only if we succeed in breaking through the *separatism* that has grown up among groups. We must aim to tear down the psychological walls that have been built around group interests. We must realize that in these matters the whole is greater than the sum of its parts. Business management must make its own contribution to a restoration of understanding and faith among men.

The American Tradition of Self-Examination. To be certain that we make our full contribution to the welfare of all, we businessmen must recognize the possibility that we may have become possessed of some of those suspicions and fears that are so clear to us when we see them in others. We too may have lost some of our faith in our fellow men. What can we of good faith in the business community do about minimizing suspicions among the dominant groups of the country, including ourselves? We can make a brave start by examining the area about which we should know the most — ourselves.

Management can make sure that any action it takes or sponsors in its own behalf is clearly justified, in the light of principle. At all costs, it should avoid building bear traps for business. Conscientious care and restraint must guide us in anything that touches us personally, such as our own compensation. We must curb our occasional enthusiasms for special government protection or other forms of assistance. We must be sure we do not support the imposition of measures within the economy that are beneficial only to the interests that we may personally represent — measures that may fail to serve the interests, or may even be contrary to the interests, of everyone else.

But self-discipline and restraint by business management, essential though they are, are not enough if we are to succeed in re-establishing genuine public acceptance of our economic leadership. We must re-establish the common touch with our fellow men. We must reappear in the role of warmhearted human beings — which is what we are.

It always amazes me when I consider how many of the leaders of business and industry today have come from very humble circumstances. Most of the people I know in high positions not only were born barefooted, but many of them stayed that way for some time.

But it is true — and I think we can see it everywhere — that as success comes and men rise to positions of responsibility, they start going to the same clubs, talking to each other, playing golf in the same foursomes, making speeches to each other, and generally building up a wall around themselves. Perhaps our business leadership needs to go back to school to relearn the art of knowing all the people. Of course one may point to exceptions; I know there are many. But there is plenty of truth in the picture, too.

Selling Ourselves Personally. What I am trying to say is that I do not think that business has a chance to do the kind of job it honestly wants to do, and the kind of job for which it is trained and equipped — it does not have a chance to make its full contribution to the welfare of all — unless businessmen get out and sell themselves personally to the other major groups that make up the people of good faith in America. Part of that selling is the exercise of conscientious care and restraint in our businesses and part is the simple matter of remeeting the "folks." I am sure that too few people really know those responsible in business organizations. We have gone too far down the road of setting up what might be called a business aristocracy, simply by mingling and talking only with ourselves.

It is easy to be suspicious of the aims and purposes of people you do not know. The foundation of good human relationships must be faith, and it is hard to have faith in a strange name on a piece of paper. We frequently feel hurt that our motives are questioned and our sincerity doubted. But all the advertising space we can buy, exhorting others to believe in us as businessmen, will go unheeded, and all our speeches and statements will fall on deaf ears, until folks believe that we understand and are concerned with their problems.

The business leaders of this nation are able, intelligent, and informed men. They have a responsibility to the nation, as well as to their businesses, to re-establish themselves in the public mind as objective thinkers and seekers of the public interest. It is entirely proper that they should do this, because in the long run the public interest corresponds with the basic interests of their individual businesses.

Business managers must merit the confidence of the nation, so that they can more effectively contribute to the solution of the many complex social questions of our time. Unless this reservoir of intelligence and capacity for action can be made available to the solution of some of these social problems, I cannot have great confidence that satisfactory solutions will be found. There is no higher responsibility, there is no higher duty, of professional management than to gain the respect of the general public through objective participation in, and consideration of, national questions, even though these questions in many cases do not relate directly to their immediate business problems.

Attitudes and Practices in Transition

We must not be impatient. Business attitudes and practices change, but they sometimes change slowly. Looking back on that uncharted period when American business was growing to maturity, we may be inclined to feel that some of those early businessmen neglected their social responsibilities. But we must not forget that it was a time of pioneering when a sense of corporate responsibility in terms of present-day standards had not yet developed. In fact, the need was not even recognized.

My business experience goes back more than 38 years with the Standard Oil Company (New Jersey). This service spans an important period in the industrial development of our country and in the shaping of new philosophies to guide management. Management has grown enormously in the understanding of its responsibilities. It has become not only the promoter of the prosperity of the enterprise but a participant in the adjustment of the claims of the several groups that I have mentioned. Regardless of our consciousness of the Biblical directive, the machine age in which we live has, in a sense, caused all of us to become our brothers' keepers. We must recapture and hold to faith in each other.

There is an underlying patriotic motive in all of this which an intelligent management thoroughly understands. In a democratic state, only those institutions which so conduct themselves as to deserve, secure, and hold public confidence can survive and prosper. It is a plain ordinary fact that our country, to be strong and constructive in a troubled world, is dependent upon free, competitive institutions to give its people opportunity of self-expression and advancement. If we are to be helpful in advancing our American way of life, we must be willing to show by example that individual objectives can best be served when they are identified with the common good.

And the serving of individual objectives by identifying them with the common good, I firmly believe, will lead to the increasing recognition of business management as a profession — for such service is the essence of a profession.