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The Role of Top Management : More than the Custodian's Approach*

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In this paper the author, after analysing various factors, concludes that the tasks of the top management are to (i) re-establish profit as a measure of efficiency, (ii) assess repeatedly the internal strengths and weaknesses; (iii) define clearly the long-term objectives, including its ethics and morals ; (iv) set and revise goals; (v) set goals that are challenging but reachable ; (vi) set plans to suit the goals and review them periodically

In the past decade, management literature has increased much more rapidly than new ideas. It is, therefore, possible to find a proliferation of such literature which defines top management function in standard terms of strategic planning, organising, motivating, co-ordinating or different terminology approaching the same basic ideas. The role of top management always reminds me of a story that is attributed to the Kennedy clan. According to the story, Joseph Kennedy one day called his sons and told them that he has worked hard all his life and made all this money, only to find that his sons wanted to enter politics, become senators, presidents and so on. "Who is going to continue to bring this money in for all this wasteful extravagance", he asked. There was dead silence and then Jack Kennedy said : "Dad, I think there is only one solution to our problem. You will have to work harder for some more time".

I am in the rather unusual position of having left the top executive position of a company, which had been doing very well by any given standards, after being with it for more than six years. During this period, the company had moved from being a "not-too-bad" performer to being a high flyer and leader in the industry with commendable record in production, profits, consumer acceptance, and safety. I left this company, on my own, to accept the position of Chief Executive of a company which has been doing rather poorly during the last few years. Obviously, I am faced with a situation in which the course, which the company has been following, needs to be corrected and perhaps reversed. Consequently, I am faced with a certain urgency in clarifying my own thinking as to what is top management's role. What is missing in Company Y, compared to Company X? Is there or are there identifiable lacunae, and if so, what are they and

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can they be introduced in a new environment; if so, how can it be done ?

Let me generalise on the problem I have as of now. Many of today's enterprises are run by paid professionals, who work for a living (may be not a very good living but a living) and seek the satisfaction of four groups : (i) Customers; (ii) Employees; (iii) Share-holders; and (iv) the public with whom the enterprise has to associate. The last includes admittedly, a hetrogeneous group community in which we operate, the local politicians, the bureaucracy, local and national, and if you are conspicuous enough, politicians at the national level.

Normally, if a chief executive was asked in the 1960s as to what his responsibility was, his response would have been, most possibly, "to make a profit"; today, he may not be so sure. There have always been variations on this idea somewhat related to cultural differences. Peter Drucker points out that management as a science is now poly-centric and a distinguishing criteria is what is considered the goal for economic performance by management.[1] In the US, it is still maximising profits, but in Western Europe and Latin America regular dividends are considered more important. In Japan where the real control in most cases, rests with banks, the real goal of management is to minimise cost of capital, obviously, since the capital is very highly leveraged with debt.

In our country, it sometimes seems to be the volume of black money one can generate and handle; however, let us hope it only seems and is not true. However, the differences that Drucker mentions are only differences in emphasis and are not basic. But, starting from the last years of the interwar period, that is, the late 1930s, and gathering momentum in the postwar period—becoming more widespread as the years went by, is the invidious propaganda which seems to have originated with the London School of Economics and the fabian corruptions it popularised, that business is bad, profit is a crime, and business management, particularly top management, is a career built up by soft oily human eels on the golf courses or in the dark corners of discotheques and carrying on an activity which is anti-national and anti-social.

Widespread is this concept, transcending national boundaries, but it has taken deep roots in this country among the middle-class and, even more so, among the bureaucracy which finds in this politician's scape goat idea, the perfect excuse for giving full scope for the negativism with which they view all questions.

For some time, the public sector executives escaped this outlook regarding them, but the last Committee on Public Undertakings put an end to that. They were painted with the same tar brush. To quote an often quoted sentence: "The Committee cannot but observe that public sector would never succeed if it is left in the hands of disinterested, unscrupulous, inconsiderate mercenaries. Unless there is true sense of involvement and determination to produce the desired result, the condition of public sector is bound to be what it is today, in many cases".[2]

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1. Drucker P. Global Management. A Contribution to Challenge to Leadership. Compiled and published by the Conference Board.
2. Commitee on Public Undertakings. Report. *Introduction.* New Delhi, Lok Sabha Secretariat, 1977–78.

Faced with this hostile environment in which there is an eternal search to find new rules and laws to fill in the gaps through which the previous laws and rules are evaded, getting the necessary approvals and permissions for a new venture is like an exercise of putting socks and shoes on a colony of octopuses. Talking of government rules, I wonder how many of us are aware of the fact that there is at least one department in *Udyog Bhavan* where until very recently if one sends an application and documentation by ordinary post or by hand delivery, it was returned with a notation which reads: "Kindly send by Registered Post. Ordinary mail not accepted".

Social Responsibility

The top manager of today looks away when asked about his primary objective and murmurs something indistinct about social objectives or the place of his firm in the total scheme of things. The vast majority of those who take up the social responsibility-based projects, charge it off mentally, if not on the balance-sheet, to public relations. We fool nobody. For this reason, in one of the companies that I was associated with, I insisted that all such "SR" projects must be demonstrated to be commercially viable within a given period. If not, the sun must set on it and it must be wound up. We wound up very few but the rest were made commercially viable.

Of course, we must recognise the environment in which we live. We must accept rules however meaningless or ridiculous they seem, but we have to be honest. There is no way yet devised which is as good as profits as a measure of the efficiency with which the share-holders' assets are being managed. Implied in this statement, "efficiency with which share-holders' assets are managed" is the related concept of customer satisfaction and employee satisfaction. This reminds me of a story of the father who set up his son in business—opening a shop for him. At the end of the first day, the father asked the son how the day went, and the son replied: "I didn't make any money, but I made owls (fools) out of four people (*char admiko ulu banadiya*)". That such a story is current is probably a reflection on our ethics today—a subject to which I will revert later.

However, the point remains. A major task of top management today is to re-establish in the organisation and outside, the significance of profits as a measure of the efficiency of utilisation of the enterpriser's assets, or if you prefer a different angle, the efficiency with which the value of share-holders' assets are being protected. Whether the share-holder is an individual, institution or taxpayer is immaterial to the issue.

Let us start on a simple commonsense approach. If the top management role is to manage and protect the value of the share-holders' assets, the first step is to examine all the facts as are available. This is a pre-requisite to taking any action or making any decision. Therefore, normally, this would be a continuing task but at a point of time the picture has to be drawn. The picture needs to be adequate in details to assist in identifying specific problem-areas; thus, an evaluation has to be of internal factors, that is, those over which the company has control as well as external factors beyond company control but affecting the company's business.

Let us try a sample :

How well is the company doing ?

Is the company faring better than the competitor ? (S/W)

Is it making/losing money ?

Are operations efficient in terms of skills/resources ?

What is the financial position ?

Are there accounting problems ?

Specific problems in other areas ?

What is the extent of personnel problems ?

Are there inter-personnel problems ?

Try External Factors :

What is state of the economy ?

What is forecast—immediate—longer run ?

What is the industry trend ?

What is the state of competition ?

What is the extent of government regulation ?

What is the political/social environment ?

These are samples, the line of reasoning to be pursued. Once these are assessed, the next step is an inventory of the company's tangible assets, its personnel and its intangible assets. Illustrative of this assessment, would be questions such as :

What property does the company own?

What is the condition of these assets ? Age ?

Are there any special features of advantage ?

What are the product lines ? : Are any of them special ? Unique ? What is the quality ? Is it diversified ?

How is the distribution system ?—Has it any special features ?

What are the financial resources ?

Is there adequate working capital ?

What are the prospects for additional financing ?

What are the personnel resources ? — Exceptional executives ? Special skills ? How are labour relations ?

What intangibles does the company have ? — Public image ? Trade mark; Brand name ?

Are there hidden assets ?

Problem Identification

The next step, once the internal and external factors have been assessed and the assets of the company have been surveyed, is to identify the problems. Any organisation has them, easily identified at the departmental and functional levels. These are, however, often the symptoms. If there seems to be more than one problem at different functional areas, the chances are that there is a deep rooted malady somewhere.

It is the responsibility of the top management to transcend functional and departmental boundaries and look at the enterprise as a whole. Here, the top management can and must need to reappraise where the weakness lies which generated the symptoms and the aim should be to discover the basic causes. The difficulty lies in the top management having to identify not only the "known knowns"—items regarding which there is adequate knowledge—and other "known unknowns"—items on which it is clear that available information is inadequate, but what is often referred to as "unknown unknowns"[3]— areas about which we do not know something but we do not know that we don't know it.

I am afraid that sounds a bit like the Arabic proverb that we all learned as children about "he who knows not and knows that he knows not...". However, many top managers are in a position where they know not and know not that they know not. There is no information system that can ensure that such a situation does not arise because what we know not is often a new opportunity which has developed by a change in external factors or in internal factors or an interaction of both. Alternately, it may be a hidden asset not identified and utilised.

But the unknown unknowns often play an important role in identifying opportunities to improve the efficiency in the utilisation of assets. What it means is that the top management must take time off to identify the opportunities, find the unknown unknowns. It does not come by brainstorming. Cerebral pop corns are rarely effective. It needs thought, evaluation and identifying the opportunities.

One could overdo this—like anything else. I recall, quite a few years ago (twenty years—how time flies) I was working during a summer holiday for a consultancy house. One of the specific assignments in which I participated was a situation in which the chief executive had called us in because he felt that his top associates were very tense and one or two had developed cardiac conditions, ulcers and other symptoms of stress. Our preliminary study indicated that the stress situation was true. The top executives were so tense, you could strum them for a guitar. This was surprising since the company was doing quite well by any standards—good production, sales, profits, steady growth, excellent labour relations. Everybody should have relaxed, but they did not.

It was several days before we came across a clue. One day the chief executive—chairman of the board, was absent after a minor accident. Almost every top executive seemed jubilant saying "good, no ten o'clock meeting". It turned out that the chief executive held a-10 o'clock meeting everyday with his top executives. Over coffee he told them everyday a new idea he had in one function or the other, to be examined or tried. A few further discussion and it was obvious that the 10 o'clock meeting was the culprit. Every top executive dreaded what was likely to come each day.

There was considerable discussion on who was to bell the cat. After all, the old boy had called us in and was paying the bills. Anyway, finally he was told that his idea-meetings, as he called them, were a pain in the neck for his colleagues. His reaction was very interesting. After looking upset for a few minutes during which we had visions of unpaid bills, he started to laugh and rather uproariously. Then he made his classic comment : "Do you know and do those ...... realise, how many nights I lay awake all night trying to think up something to say next morning at ten, because I thought they expected me to come up with something every day".

Funny, and the meetings were reduced to monthly idea-meetings; but I can't help

3. This distinction and the phrase are drawn from a recent article by J. Lynn Helms. Chairman and C. E. O. of Piper Aircraft Corporation, entitled 2 + 2 = ?

but feel that the old boy had a right idea, in fact, two right ideas :

(1) The top management must think and constantly search for the unknown unknowns, new opportunities to be taken advantage of ;

(2) The top management must keep shaking the boat. The impact had to be continuous to knock out complacency and the temptation to manage custodially, particularly when any managed change has to be done under the full glare of a disapproving environment, disapproving productivity, efficiency or profits.

To get back to my earlier statements: The task of the top management is to repeatedly assess the internal strengths and weaknesses, the external or environmental factors and evaluate the assets of the company—tangible and intangible. Once this picture is developed the core problems need to be identified. Logically the plan to tackle the problem, the grand strategy should then be formulated. That is what the text-book says, most text-books anyway. I do not quite see it that way.

On what basis are you going to plan, even if you identify the basic malaise? To start with the basic. What are our company's or enterprise's objectives? Are they well defined and have they been re-evaluated recently? More important, do the employees understand them and accept them? A surprisingly large number of organisations have no defined objectives or if they have, they were drafted with the Memorandum and Articles of Association. Hence, the objectives need to be established and revised periodically. I doubt that objectives, however broad, established twenty years ago, can today stand unrevised if they are to provide total and overall guidance to an enterprise. Hence, the top management must define and state explicitly the long-term objectives of the company and review them at least once in five years. I also suggest that in drawing up or revising the objectives, the top management takes a good look at the ethical values implied in these objectives and, if need be, make them more explicit.

I sometimes feel that I am one of the least angry men, but let us admit that we are, by and large, operating in a world where honesty or old fashioned ethics are out of fashion. We operate in an environment of making "owls out of customers" without any compunction. I do not know if any one heard of the story of the man who went to the Duke of Wellington and gave him the sales talk on bullet-proof vests for the British Army. He showed him the sample and explained how many lives could be saved by the use of the bullet-proof vest. Wellington asked the man to put on his vest and then drew his pistol to test the vest. According to the biography of Wellington, the scoundrel ran out faster than the bullet.

Everything has been, more or less, in shortage since 1940s. We have no real pride in our quality, no shame when our exports are found to be of a quality far lower than the samples. We hear of another organisation which collected insurance under false claims and we almost sneakily admire them. Export entitlements were misused, subsidy schemes turned into milking operations. Import licences or industrial licences are obtained by misrepresentations and extending the glad hand or bought out of influence. We make promises to customers which we have no way of fulfilling. We sell sub-standard goods by influencing the purchase officers and their assistants. We talk glibly about number two accounts, about "taking care" and then we wonder why our new plans and programmes do not sell on their own merit. We complain of corruption, of black money power. Who corrupted and who helped create black money?

Let me give an example. In the early seventies, for a couple of years, fertiliser stocks accumulated partly through over imports. Credit was extended indiscriminately. Large bad debts were a problem for several fertiliser companies. Two years later, fertiliser sales picked up; imports levelled off and shortages developed. More than one company entered into deals by which the dealer was given products selling at illegal premiums on the understanding that the premium he collects (part of it) will be applied towards clearing the bad debts, not necessarily his own. Some may recall that this became a scandal in one case. The significant point is that other similar operations never even came to light.

To come to the point. The top management is also the custodian of the company's business morals and business ethics. If the top management compromises on the ethical/moral standards, the standards will deteriorate right through the organisation. In fact, deteriorating ethical standards in business, is a phenomenon of the last decade or so. I do not think managements have realised that it is a major challenge of the time—one which will not go away if one simply ignores its existence.

Once the objectives are clear, the next step is the task of setting goals for the enterprise. The period for which specific goals are set and reviewed, is a matter of the nature of the product or service the enterprise handles, the market it caters to, etc. In Madras Fertilizers, for example, the corporate goals were set for a year (at the start of the year) and reviewed quarterly. The quarterly or periodic review is significant, It is quite conceivable for goals may be set for two or three years at one time in certain industries but the periodic review becomes even more significant. It recognises some facts of life not always found in mathematical models which seem to substitute for common sense these days.

(a) Future trends may alter circumstances and one definite assumption that can be made regarding forecasts is that they are most likely to be inaccurate.

(b) Decisions made for any appreciable length of time will probably be distorting current problems very soon.

(c) Business firms have the same inertia problems as any other organism.

(d) Outlook must be assessed and reassessed all the time in the light of new forces and previously charted courses re-examined. Future can only come one day at a time.

When the goals are set, they must cover every division, function, and activity, even if some are non-monetary or difficult to measure. For example, in Madras Fertilizers, goals are set in terms of production, sales (quantities) and market shares, specific welfare measures and in terms of maintenance days, inventory levels, specific bottlenecks or activities, etc, including next target for accident-free (non lost time) man hours of work.

What is also meant in terms of realism is that in setting goals, the top management must be able to keep some key options open in areas where the outlook is clouded with