1964

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Recommended Citation
Quarterly, Vol. 10, no. 4 (1964, December), p. 14-18

TODAY'S NEW LOOK:

THE CHALLENGE OF DEVELOPING MANAGEMENT TALENT

by Richard C. Stratford

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A native of Idaho, Mr. Stratford attended the Southern Branch of the University of Idaho and was graduated from Utah State University in 1928. Mr. Stratford is a member of and an active worker in the Church of Jesus Christ of Latter-day Saints, and after his graduation from the University he served three years as a missionary in Germany and Switzerland. Later, when he was partner in charge in Portland, the firm granted him a leave of absence so that he could give voluntary service as president of the Northern States Mission of the Church. He served in this capacity for three years before returning to partnership activity.

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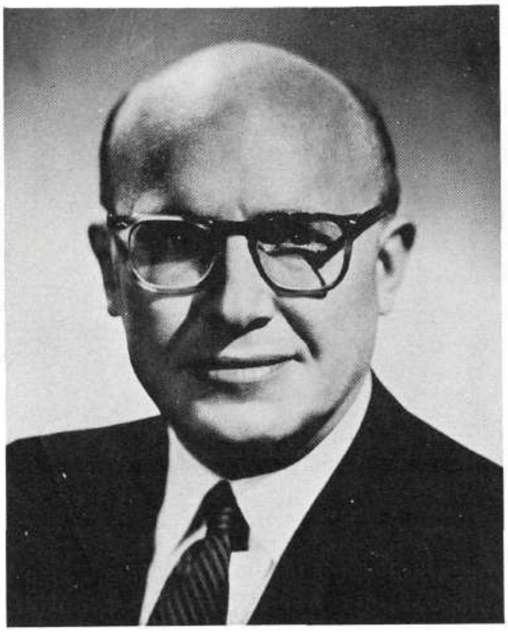
"Though your balance sheet's a model of what balance sheets should be;
Typed and ruled with great precision in a type that all can see;
Though the grouping of the assets is commendable and clear;
And the details which are given more than usually appear;
Though investments have been valued at the sale price of the day;
And the auditor's certificate shows everything O.K.;
One asset is omitted — and its worth I want to know:
That asset is the value of the men who run the show."

The Accountants Magazine (Scotland)
September, 1960

Peter F. Drucker, a nationally known consultant and author, said: "The ability of an institution to produce leaders is MORE IMPORTANT THAN ITS ABILITY TO PRODUCE efficiently and cheaply." He places the development of men above that of products or services.

This is obviously true of the accounting profession today. The success of the individual executive is dependent not only upon his own services but also upon the men he trains. Our economy is becoming so complex that his contribution cannot be significant without the development of the future "men who run the show."

In contrast to this point of view, forty years ago the



chairman of the annual meeting of the American Institute of CPA's, after hearing a speech by a fellow accountant on budgeting and forecasting, remarked: "This was a fine presentation of the subject, but I want the membership of the Institute to know that we are accountants and auditors and not forecasters and prophets."

Thus, as a profession we have come a long way in the past half century, particularly in the last 15 years, in opening our eyes to our responsibilities and opportunities. And we have only begun. The scope of the services of the individual accountant must change to keep pace with the increased complexity of our economy. To do this we must be trained not only as accountants and auditors but must have a broad understanding of the principles of management including the new techniques, skills and vocabulary.

The demand for qualified executives is increasing daily and will continue to increase even though automation is taking over some lower level decision making functions. *Nation's Business,* the publication of the U.S. Chamber of Commerce, stated in 1962 that the U.S. will need 50 percent more executives by 1970.

The late Eric Johnston, president of Motion Picture Producers Association of America, prophesied that we will need within the next decade one million managers in addition to those we already have.

To illustrate further the tremendous demand for management-trained people, it is interesting to note that 30 years ago in the U.S. there were very few schools of business. Today there are more graduates and majors in business than in all the physical and biological sciences and mathematics put together. In fact, more students are receiving degrees in business than in any other single field except education.

What does this mean to us? If we are to stay abreast with the times and perform the services in society that we should and can perform, we must train ourselves and our staffs in this field called "management." This will enable those of us who are auditors to better understand the problems of our client and assist him in his decision making. And it will place before those who are in line management positions the challenge to establish goals and to organize and administer effective management development programs to meet the challenge set by Mr. Drucker.

In the building of these programs there are three areas that need our immediate attention:

1. Management promotion.
2. Recognizing the management potential within your firm.
3. Appraisal of performance.

MANAGEMENT PROMOTION

The managing partner of every major accounting firm from now on to 1980 is, or should be, on the payroll today. What kind of training is he getting? Has he been tagged for rotation and special experiences? What evaluations are his supervisors making of him and he of his subordinates? Will your firm select the right person?

In considering these questions, we are concerned with the development of various people. There is, for example, only one president of Aluminium, Ltd. with a varying number of vice-presidents. Many vice-presidents and managers must be trained to develop one president of a major corporation. The management development process begins at the youngest levels of experience where most of those on top today began their work. The president of American Tel. & Tel. started as a clerk. The young man with an MBA might skip one or two levels, but even in his case the endless process of management development is going on to train, to supervise and to evaluate.

Planning for promotion in a public accounting firm is an active program. Turnover is rapid when compared with industry. We are training for our own staff, and industry is always reaching into our ranks to entice our men away.

The first step in planning is to determine the number of positions which are available, or will be available, over a specified period of time at each level of responsibility. This might be termed the "demand aspect" of planning for promotion.

The supply must then be estimated in terms of the personnel already on the staff and the extent to which they may be developed. Industry can hire from the outside at executive levels, but in professional accounting the supply comes from within. Supply must be related to demand. In recent years the demand for staff has exceeded the supply, and there is no reason to believe the situation will change unless we do a better job of development.

Planning for promotion is part of the overall five and ten year plans that corporations are now developing. One company developed an organizational analysis chart to reflect its executive planning. On this chart each square represents one executive or supervisory position. It includes the man's name, his title, and gives index numbers as to his status in the development program. Here in quick order the president can find the rating of the man in his present job, an appraisal of his ability to advance within the company, his retirement year, and the availability of men under him to fill his position. Such a chart points out organizational weaknesses and can pinpoint goals to be attained in management development.

Sperry Rand Corporation has an interesting program of selection of personnel for promotion. Once a position is open a three step selection process is implemented:

1. From an automated personnel register selection is made of individuals with certain traits who could meet the requirements for the open position.

2. The personnel development staff examines the personnel files of the individuals under consideration.

3. Personal interviews are arranged between the supervisor of the open position and each candidate who has successfully passed the first two steps.

This type of selection process opens broad avenues for the advancement of the most competent individual.

Other sources of talent are available from recruitment outside the company. However, organizations with effective management development programs have less need to rely on outside recruitment.

RECOGNIZING THE MANAGEMENT POTENTIAL WITHIN YOUR FIRM

This second area that needs our attention is the working out of a planned program to recognize and develop management potential. There appear to be two basic approaches or assumptions to the subject of recognizing and developing people to become managers. The first is the "situationist approach."

This approach assumes that managers arise from situations only and that training is effective as the result of creating a situation where managers may emerge. This is similar to the "sink or swim" method of teaching a child to swim. In war times during combat, battlefield promotions occur when some individual in a moment of extreme danger exhibits his ability to be a leader. This approach has merit, although it also has shortcomings, since none of us are leaders in every situation in life. John may be the manager in his office, but when he crosses the threshold of his home, Jane, his wife, takes over.

Five university students have one of their group, Joe, as their leader on the basketball court. But Phil directs their affairs in the biology laboratory and Fred is manager when they go skiing together. The situation often determines the leader.

An example of the situationist approach is RCA's program, which was written up in *Business Week* (Sept. 23, 1961) under the title "Putting Executives in the Goldfish Bowl." Here RCA training leaders observe, by use of closed circuit television, the trainee's reaction to different work experiences such as discussions with subordinates, conferences and answering the telephone.

The second approach to recognizing potential managers is known as the "trait theory." Here we assume that a successful manager will have certain traits not found in an unsuccessful manager. Therefore, the members of the staff must be observed and those who have these traits selected.

Provision is made to train these people by providing coaching and experiences to activate their managerial talents.

The Standard Oil Company of New Jersey conducted a successful "trait" management research project (*Management Record*, May 19, 1962, p. 33) beginning in 1955 in which they tested 443 managers, starting with the chairman of the board, the president, and including managers down to the second level of supervision. The purpose of this study was to determine the traits these individuals possessed which could be relied upon as predictive factors to successful management. If, in the selection process, employees with these traits could be identified early in their company experience, development could be focused on such candidates. Many tests were applied including: a standard evaluation test on intellectual ability and reasoning, a personality test, a test of management judgment and self-performance evaluation tests.

The study concluded that the following assumptions were sound:

1. There are differences in personal characteristics of more successful and less successful managers.

2. These differences can be measured.

3. A candidate has more chance of being successful if his characteristics are more like those of the successful managers.

4. These characteristics can be measured early in his career.

For example, a specific conclusion of the results indicated that the candidate whose weighted test score was in the highest twenty percent had seventy-six chances in one hundred of being in the top third of successful managers. If his score was in the bottom twenty percent, he had only four chances in a hundred of being in the top third. By using these selection techniques and considering only the top scores, the company would be able to identify the successful managers of the future seven times out of ten.

APPRAISAL OF PERFORMANCE

The theme of the third area in the recognition of and development of managers is that *all development is self-development*. Theodore Roosevelt attributed his success to the fact that early in his life he realized the validity of this statement. Seminars, executive training courses, staff meetings and other self-development opportunities are effective only if the individual applies the knowledge, techniques and skills to which he has been exposed.

Other factors contributing to a successful program of executive development and appraisal include recognition that:

a. A favorable climate must be created within the company.

b. Management must realize that responsibility for the implementation of this program is a line and not a staff responsibility.

c. The influence and attitude of the boss is crucial.

d. Development requires action, and some say as much as ninety percent development is acquired on the job.

e. Development is a never ending process.

Now let us consider the specific methods of appraisal of performance.

1. In evaluating a manager or supervisor it should be noted that a self-evaluation program has substantial benefits. Subjective self-rating is most effective in helping an individual to recognize his strengths and weaknesses. Should a superior indicate to a subordinate his weaknesses and deficiencies, the individual might not accept the criticism, whereas in a self-appraisal such items might often be recognized. An interview with his superior after a self-appraisal would have the effect of motivating the individual to overcome recognized weaknesses. Such self-appraisal forms could include questions such as these:

a. What are the long range objectives of your department?

b. Which objectives defined during the previous six months were achieved?

c. When and how have you communicated to your subordinate managers and employees the goals you have set for your department?

d. What specific effort has been made to establish appropriate standards to measure results in your department?

e. What specific responsibilities and authority have you delegated to your subordinate managers during the past six months?

f. What kind of communications are you using with your subordinate managers and employees? With your supervisor?

g. What employee suggestions relative to productivity, services or morale were received during the past six months? Which of these were adopted?

h. What specific personal goals do you intend to achieve during the next six months?

i. What are you doing in the area of selection and training for replacement for yourself?

2. In addition to self-evaluation, a rating by the ratee's supervisor should be made and discussed in any appraisal interview. It should be remembered, however, that the superior often is not an entirely reliable source of information as to the performance of a subordinate. Prejudice and

preferences are too often a result of a superior's appraisal.

3. A third source of evaluation is an appraisal by a person on the same level as the ratee or by a team of his associates. Such ratings often are more objective because the individual being appraised is judged in a different light from that in which he is considered by his supervisor.

4. Appraisal by subordinates has value in the development program. The ability to lead and to effectively communicate with subordinates is an attribute of all effective managers. This was recognized as an ancient truth by Mencius, the Chinese philosopher, who wrote that for a more accurate appraisal of a leader one should also seek the opinion of his subordinates.

Appraisal approaches in use today include:

1. The "quick and dirty" approach: This is one of the most common methods, with the supervisor giving impressions based on observations made over a period of time. As indicated, it is not systematic nor does it involve the objective collection of evidence. It leaves much to be desired.

2. Ranking: This method merely ranks the individuals from highest to lowest in overall performance. This is a simple procedure and is often quite effective. It enables the supervisor to sharpen his own analysis of those under his direction.

3. Number rating scale: This device is used to record an individual's performance. It is divided into different performance factors and personal trait factors. I have often seen performance evaluation of accounting staff people based on a modification of this system which uses instead of numbers a graded evaluation from superior to poor.

4. Word rating: This method provides an elaborate description of the meaning of each position, and the supervisor selects the statement that is most appropriate for the individual being rated.

5. Forced choice method: Instead of asking the supervisor to rate the individual on general traits or performance, the form gives a number of descriptive items and asks him to choose which is the most or least characteristic of the individual.

6. Critical incident method: The supervisor is asked to keep a written record of examples of particularly good or particularly bad employee performance. Two principles are involved. Crucial areas of performance are more important than the usual routine matters, and supervisory judgments are based on specific, concrete incidents. This may be one of the most practical methods in rating performance for an accounting staff, as the specific examples of work well done or of average or inferior work give a basis for appraisal and setting objectives.

7. Common objective method: This method accomplishes all of the objectives of a rating method, namely:

a. A clear and specific purpose.

b. Careful use of words.

c. Concentration more on performance than on traits.

d. Alertness for personal bias.

e. Comparative rather than absolute judgments.

This method can be used as an underlying base for the confidential appraisal and other rating methods. It involves the following concept:

★ An interview is held with a staff man or employee before the start of the appraisal period to set performance objectives. The individual's responsibilities and his specific performance objectives are discussed. On the basis of this discussion the objectives are set. These should be explicit and in writing.

★ As part of the interview the supervisor and subordinate should mutually discuss ways and means of meeting the objectives. The subordinate is helped to think objectively about reaching his goals. Unproductive methods can be eliminated. The subordinate is made to feel that his supervisor has a sincere desire to help him succeed.

★ The supervisor and subordinate should determine the evidence to be used in appraising the accomplishment of the goals set. This starts the individual to thinking in terms of specific evidence which will be needed for a proper evaluation.

★ At an agreed time interval the two should sit down and discuss the subordinate's performance. This discussion will review the goals set and compare these with the performance achieved.

At this last step the supervisor and subordinate will usually start again on items "a" through "c" for the period ahead.

The common objective method, while not widely used, can be the most effective in the training of management people. It includes the feature of the consultative method and makes definite an individual's goals as related to his performance.

Management selection, evaluation and promotion are essential today in large and small businesses, both for industry and for our profession. There is much room for better planning, more adequate selection and more effective appraisal of performance. No organization today is achieving near maximum potential of its management talent. The organizations that do the best planning will have the best men, and as stressed by Drucker, men are more important than products or services.