

Management culture and gurus: their part in our downfall

EXCERPTS FROM THIS PROGRAMME INVOLVING WILL HOPPER

Annabelle Quince: Welcome to Rear Vision here on ABC Radio National. Throughout the current economic crisis there's been a chorus of anger over executive salaries and performance. For years we were told that executive salaries were linked to a corporation's performance, and during the boom times this was an idea that was hard to argue with. But as the current financial crisis has taken hold, and executive salaries haven't gone down, this notion is losing credibility fast. Today on Rear Vision we look at the origins of the modern CEO, a history of managers and management culture.

Annabelle Quince: Those managers in those companies in those early days, the early part of the 20th century, did they tend to stay within one company, or at least within one industry?

William Hopper: Managers tended to join a company and stay in it for their entire working lives, so they acquired what is called 'domain knowledge'.

Annabelle Quince: William Hopper is a former investment banker and a co-author of 'The Puritan Gift: Reclaiming the American Dream amidst Global Financial Chaos'.

William Hopper: Now this is a phrase which has recently been launched by the Chief Executive and Chairman of General Electric, Jeff Immelt, and I think it's a very important one. He says that it is very important that managers should possess domain knowledge. And if you're Chief Executive of an engineering company and you don't actually need to be a qualified engineer, but you should know a hell of a lot about engineering. Chemical companies should be run by people who know a lot about chemicals. And of course banks should be run by bankers. And this of course is why we've had this terrible crisis on Wall Street and elsewhere, and in Britain. In the last 30 years the idea has arisen that banks do not need to be run by bankers let's call them, they can be run by a different class of manager whom we call professional managers.

William Hopper: In the good American corporation of the mid 20th century, they practiced Bottom-Up Management. That meant there was a strong tendency to throw responsibility down on the lowest level capable of accepting it, and within the manufacturing company, that would of course be the foreman, and if you look at some of the really good books that were written by management around the 1950s, 'The Practice of Management' by Dr Peter Drucker, for example, he underlines bottom-up management as one of the key aspects of successful companies and he holds up General Electric and General Motors as examples of its successful implementation. The strength of the American system as it was, is that the entire organisation becomes involved in decision-making, which gives a great sense of responsibility to all levels in the company. And one of the sadnesses, of course, is that bottom-up management has been to a large extent, phased out in American companies, after say 1970, but particularly after 1980, and that is one of the reasons for the catastrophes that we face today.

William Hopper: I think the new professional manager simply failed to understand the importance of middle management. Now the middle management in the great corporations of the mid 20th century performed an absolutely vital role. The middle management was the link between the senior managers and the junior managers, so the senior managers could not possibly have the time to deal with all the junior managers who effectively ran the organisation and the link and the channel of communication between them was the middle manager. Now the middle manager had middle manager segment had other functions as well, they carried the corporate memory of the organisation. They remember what problems had been solved in the three years before, or five years before and who had solved them which made it much easier to solve the same problems when they arose again. And finally, they were of course the source where one could draw future senior managers. So the middle managers were a very important part of the structure, that when you have the new financial engineers took control, and they start to improve the figures, not the products, they became cost-cutters rather like Sir Fred Goodman, the former Chief Executive of the Royal Bank of Scotland who was known as 'Fred the Shred', because he was a cost-cutter. Now if you look around, the most obvious person to cut out was the middle manager, because he wasn't really working at the coalface, and enormous damage was done to organisations, like the removal of the middle manager.

Annabelle Quince: The two key features of the new professional manager's career were mobility and specialisation. The new manager was no longer a generalist, but rather a specialist in marketing, personnel or finance.

William Hopper: This is the origin of the slightly ironic expression 'financial engineering', nothing to do with mechanical engineering of course. It refers to attempting to run a corporation through the finance department. There's a very good author called Marianne Keller who wrote a book about this subject, way back in 1989 and she was writing essentially about General Motors. She is the biographer of General Motors, if you like, and she said that the new managers were more concerned about improving the figures than improving the products, and I think that is a very good way of describing this new era of financial engineering, or professional management.

Annabelle Quince: William Hopper argues that at the end of World War II, General Macarthur faced a similar economic situation in Japan as we face today. So can we learn anything from what he did?

William Hopper: General Macarthur fired all the senior managers of all the major Japanese companies for incompetence, and he dipped down and he picked up middle managers and moved them into senior positions. Now what he was doing is he was looking for people with domain knowledge, not, you know, lawyers, who had been previously running Japanese companies, and I think the same thing has to be done in the United States. President Obama has to give a lead to the pension plans who own most of American companies, and those pension plans have to insist on the dismissal of a very large part of the senior executives of American companies today, and have to dip down into middle management and pick up the people who a) have acquired domain knowledge, and b) who have learned the craft of management. And I think that is the way forward for the United States.

Annabelle Quince: William Hopper, ending our look at the origins of the modern CEO, and management culture. His book is: *The Puritan Gift: Reclaiming the American Dream amidst global financial chaos*. His co-author is his brother Kenneth. Publisher: IB Tauris 2007.