



# THE ROYAL BANK OF CANADA

## MONTHLY LETTER

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### THIS MATTER OF EFFICIENCY

**N**O one can tell individuals exactly what to do to be efficient, because situations and conditions vary so greatly, but there are certain efficiency principles it will do none of us any harm to review.

While this Monthly Letter is written first of all for business men, it can be read with some benefit by others, merely by reading "home" or "school" instead of "business, industry" and the like. The principles of efficiency are equally applicable to business executives and workmen, to housewives and stenographers, to political leaders and the officers of associations.

Each of these is using his intellect and his hands to fashion out of his environment better living conditions than he now enjoys, physically, mentally and spiritually. In doing this, he risks loss and looks for gain, and these are two factors which completely describe business enterprise.

There never has been a system under which there were not ups and downs. However primitive or advanced a society may have been, it was subject to scarcities and abundances. It is, if not a rule, at least a fact in all nature, that there are cycles and phases and currents. The advantage that human beings enjoy over the rest of creation is that they have power to reason, the ability to remember, and the urge to do something besides following instinct.

#### *What to Do*

There is a great deal to be done. The worst thing a society or an individual can do is to sit back in easy optimism, thinking that because a situation is merely temporary it is better to let things drift until they sort themselves out.

The first thing is to find out just how our affairs stand, so that we may form plans about what to do. Everyone knows that profit consists of what is left out of earnings after paying expenses. Before there are any profits we reach a point called by business men the "break-even" point, where income just balances expenses. It is important to know what that is, and to separate items on the expense side of the ledger so that

we know how many days we are working for the landlord, how many days for the government, and so on, before we even start to build up a disposable profit.

This exercise is an education in the facts of life. It will put us on our guard against overstocking, over-expanding and overreaching ourselves. It will go a long way toward revealing whether we are getting out of life the values we most desire. It will tell us whether we are paying so much for inconsequential things that we have a meagre profit left over for advancement. Then we can start looking to the future.

#### *Having an Objective*

There are two main divisions in conducting a war, and they may be applied to carrying on a business. Strategy is the over-all plan, and tactics is the detailed carrying-out of the plan. The whole art and science of strategy and tactics depends on selection of the right objective, and the proper distribution of effort.

A man without an objective clear in his mind may be very busy and active and have all the external appearances of a hustler, but his dispersion of effort is as inefficient as that of a romping dog, because it is aimless.

Just as we need objectives, so we require principles. The principles of business are those that have been used successfully by great executives throughout history. They are tools which management can use in the solution of problems.

There is a difference between principles and rules. A principle is something inside one; a rule is an outward restriction. A rule, as the philosopher Crane wrote, "supports us by the armpits over life's mountain passes, while a principle makes us sure-footed." Principles are for leaders who do their own thinking; rules are for people who just wish to obey.

#### *Keeping Out of Ruts*

Men are inclined to contract habits. They learn the routine way of doing their tasks, and then plod along patiently, faithfully and conscientiously. People often

say in the offhand way we use proverbs and nonsense phrases: "Nobody likes to get into a rut", but it isn't true. The rut, said Dr. J. F. Johnson in a book he called *Business and the Man*, "the rut woos the young man most seductively. 'Just come to me,' it says, 'and I will make you comfortable. See how easy I make things for those who love me. If you will only walk upright in my beaten path you will never worry or get wrinkles or break your legs, and your salary will be automatically increased on every New Year's Day.' That is the siren call of the rut, and 90 per cent of young men think it sweet music."

That was written 30 years ago, but only this year two executive officers of this Bank took occasion to call attention to a similar failing. The President said: "I deplore the increasing trend among a portion of the younger generation today to think too much of security and not enough about going out and really accomplishing something for themselves." The General Manager remarked: "No country on earth has a future that promises to surpass or even to equal ours . . . We could cause this country to be developed to its maximum extent from within itself by the application of our own enterprise and ingenuity, and by the investment of our own monetary and human resources."

### *Practical Efficiency*

Inefficiency is due to one of two causes: either the principles of efficiency are not known, or they are not applied. The first may be due to ignorance or to the presence of a manager who "knows it all" and is the greatest enemy to efficiency. The second may be traced to carelessness or irresponsibility.

There are, in addition, men who think they are applying efficiency principles when they are merely imposing rituals. It has often happened that visitors to efficiently-run factories confuse system with efficiency. They collect cards, forms and devices, supposing that they have the secret of efficiency. That is as if a man should read a bank's book of rules and Patterson's book on *Canadian Banking* and think this makes him a proficient banker.

One place to start building efficiency is in the careful planning of operations. Management and operations are so closely linked that to separate them is to kill any chance of success.

Planning involves many things, but first of all good planning demands that the executive who is planning should do so realistically. He shouldn't expect the impossible. He should make sure that all the equipment necessary to the task is available to his lieutenants and men.

Alexander and Montgomery had this in mind when they steadfastly refused to advance the date of attack at El Alamein. They insisted on having the material at hand to enable their plans to be carried through successfully. Perhaps they had in mind as a warning the battle of Isandula fought in 1879, when two

British regiments were totally destroyed, partly because there were no screwdrivers to open the ammunition boxes.

### *Efficiency in Costs*

Every waste of material and time has its effect on the cost of conducting business, and we recall that the end result of a business is expressed in profit, which is what is left after deducting costs from income.

Cost accounting is not a matter only of looking at the total result of a year's work. A bank is not satisfied unless each account, as well as the general ledger, balances. No business, however small, should be content unless it knows just what departments are making money.

The difference between income and cost in any department shows the margin of safety at which that department is operating, and the total will show the margin of safety of the business. For example, if income were \$1,250 and costs amounted to \$1,000, we should know that the business is 25 per cent over its break-even point, and we had that much lee-way.

It is necessary to make everyone in the business cost-conscious, and this can be done by showing them that in the long run they serve themselves best by serving the company well. The saving made through the prevention of mistakes, through the elimination of waste, and through increasing production, will show up in the balance sheet. It is on the result shown in this balance sheet that the company decides to expand or contract, and whether it can pay more or less in wages and salaries.

The path of business is littered with the wreckage of companies that have failed to keep account of their costs in relation to their products. Keeping records may be a nuisance, but so are many of the other things you have to do in running a business or managing a home. Records make available to you the lessons of the past, and enable you to project them into the future. They increase the scope and number of warnings. They show up wastes.

It may be impossible to eliminate all waste, but everyone has something to learn about the value of trying. When the forty-niners panned gold in California they rejected any ground that did not contain \$20 of gold to the cubic yard; invention of the cradle made \$5 dirt profitable; the sluice box made \$1 dirt worth while, and in hydraulic mining the value may be as low as five cents to the cubic yard.

That kind of waste-elimination is brought about by initiative in inventing better ways of doing things. There is another kind of waste, more common, which is due to sheer carelessness or irresponsibility. Emerson tells in his book on the *Twelve Principles of Efficiency* about an engineer who poured out a gallon of 40-cent oil in order to have the tinsmith solder a leak in the 15-cent can. A transcontinental railway in the United States eliminated a gravity grade at a cost of \$5 million, saddling itself with a fixed charge of

\$1,000 a day forever. The operating cost of the helper engines able to handle all the traffic up that grade did not exceed \$100 a day.

### *Efficient Labour*

Problems connected with labour are integrated into other management problems because productivity, which is the chief end of business, is a matter of combining men, management and machines.

It used to be a common saying that in every trade the best workman is the man who can effect most with the least effort. It is equally true today that nobody wants to know how hard you have worked but what you have produced. To carry it into a broader sphere, let us say that the country's prosperity does not depend upon the number of men employed but upon what they produce. This is an important truth for union men: increased output can have as great an effect as increased wages in raising living standards, and, in fact, workers can further enhance their standard of living only by increasing their productivity.

The essence of efficient management is not so much "handling" men as it is getting people to do things. For this, it is necessary to understand people, to have vision, to co-ordinate, and to use judgment. Infinite patience is needed. Information should be given so that the worker feels a sense of real participation through understanding what his firm is doing and what are the causes of its profits and losses.

Workers should be initiated into the facts of competition. It is significant that the standard of living for workmen remains highest in countries where there is the least restriction upon competition, which is the essential characteristic of private enterprise, and where there is the greatest freedom from the deadening hand of collectivism.

Competition does not consist of price-cutting and advertising. It involves quality, a good name, and dependability. It demands constant research, so as to develop maximum quality at the minimum price.

### *Essence of Efficiency*

Efficiency cannot be achieved for a business by one man alone. It demands teamwork, which is the antithesis of being dragged forward or driven forward.

Teamwork implies the right kind of top organization, combined with mutual confidence, knowledge of the powers, limitations and aims of all the people and departments participating. It requires combined training so as to cause men and departments to cooperate with each other for the common end. A baseball team provides a ready example. Without high individual standards, without team codes enthusiastically lived up to, without severe penalties to enforce obedience to the umpire and peace between the teams, the modern game would be impossible.

To manage the team, the executive needs the help of a general staff. He will surround himself with helpers who can be of most use to him, and provide

them with a clear-cut organization pattern which gives them responsibilities and clearly outlined authority in certain duties.

It will be his standard rule never to do anything himself that can be done well by subordinates. There are enough things they cannot do sufficiently well to keep him busy.

The good executive will not insist on seeing every report. So long as the machine runs smoothly, he will be a looker-on. In fact, he will recall Solon, the great law-maker of ancient Athens. After enacting his laws, Solon bought a vessel and went away for ten years.

### *Confer and Consult*

The successful executive will originate, direct and scrutinize, but before he reaches decisions he will confer and consult. He knows that in his high position co-operation is not a virtue, but rather its absence is a crime. He cannot win or keep people's good will unless he consults them on subjects in which they are interested. Machiavelli tells us in *The Prince* that the emperor Maximilian consulted no one, yet never got his own way because he kept his plans secret and found them obstructed by those he should have won over.

Consultation is a great factor in building morale. When the men in a firm, from top to bottom, are working for its success and advancement, that firm has good morale. They need to know exactly what they are doing and why they are doing it this way rather than another. They need to believe in the sincerity of their chief, and in their own personal importance in his plans.

### *Being an Executive*

To be an efficient executive does not demand high education, but it does require common sense, keen intelligence and qualities of judgment, temperament and drive. You must enjoy the call to combat that difficult problems impose. The successful executive holds his success only as a challenge cup.

You must pay a price, too. The higher you climb in the scale of success, the harder you will have to work to hold your position, and the more you will have to put up with. That is one reason why there are not more people up where you are. It is folly to think of being able to avoid criticism, and weakness to be affected by it: the only defence is obscurity.

The executive must be a doer of things. The opportunities he sees from his high place have no meaning unless they are buttressed by activity. We learn that men who get things done are those who in the most effective manner go about the job of getting things done, and that putting off until tomorrow what ought to be done today kills business. Dr. Donald A. Laird, writer of books on applied psychology, gives this advice: "Let others coddle you now and then if they want to, but never coddle yourself if you expect to get things done."

## *Efficiency Attributes*

There are a few attributes to be developed by the efficiency-seeking executive under every circumstance, but they are particularly needed when all is not smooth sailing.

Most important, probably, is the power of decision. The executive who hesitates is lost. No matter how clever he may be in his profession, if he wobbles about making up his mind he is branded a man of weak will and irresolution. When a decision cannot longer be deferred, he jumps at one, hopes for the best and worries himself fearing the worst.

There is no room for split ideals or conflicting aims in the makeup of an executive. Sir William Howe was appointed Britain's commander-in-chief in North America partly on his undoubted merits as a soldier and partly with a vague idea of conciliation. It is always dangerous to attempt a combination of two so widely separated functions, and Howe felt compelled to resign his appointment. America claims one of the most odd of natural oddities, the pocket gopher, which can run forward or backward with equal speed, but that is not an ideal for the business man to emulate.

For efficient management, one needs courage. Many men decline to undertake anything unless they have positive assurance of success. In youth they look for employers who promise steady advancement, so that they feel sure of an annual increment in salary. Later on, as they see others passing them in material gain, they do not blame their lack of courage but "conditions" or "lack of pull" or some other scapegoat.

The successful man wins his place in the world as old playgoers used to get into the theatre on first night: by making for the thickest of the crush and resisting the tendency to edge out into the place of ease. He follows Napoleon's system of sacrificing all secondary views, and incurring all lesser hazards, to secure what he considers the main object of his campaign.

### *Make a Wise Alliance*

At the same time, the efficient executive is careful. His courage does not consist in ignoring difficulties and perils, but in seeing them and mastering them. He can calculate odds very closely to begin with, and then add, almost mathematically, the element of chance, which always remains a sealed mystery to average minds.

Some of the precautions observed by the business man when embarking upon an enterprise are: enter no undertaking without reserves; discount heavily your appreciation of the stupidity of your opponent; make your base secure, so that you have a strong fixed point around which to manoeuvre.

Success cannot be won by passive defence, which merely serves to avert defeat, but even in his most blazing enthusiasm the efficient business man will have everything carefully calculated, weighed and measured. He is ready, then, to make a wise alliance with circumstances so as to follow up a success or screen a retreat.

The business executive must be confident. People do not like to work for a pessimist. Having appraised the risks and dangers carefully, the leader will act as if there were no doubt of the outcome.

A man engaged in business, in top position, needs time for both an active and a contemplative life. Only in that way can he keep command. His thinking puts him out in front of the crowd, and the public expects of its leaders that they should keep a step ahead and a notch above.

He needs, pre-eminently, initiative, coupled with flexibility that enables him to meet chances and changes. The ability to improvise quickly and effectively is an indispensable part of efficiency.

No man of feeble imagination can maintain his place as an important executive. This is why you will find 10,000 men guarding the past for every one who pushes forward to a new horizon. The executive type of man is not satisfied with having and resting, but is filled with a passion to grow and become. Initiative means the ability to think and do new things.

Finally, in this list of qualities of an executive, he must keep on learning. All our worthwhile knowledge of the world is based upon theory. Our factories with all their thousands of kinds of machines have been constructed in harmony with theories that have been carefully thought out and tested. If an executive stops learning, his business stagnates.

### *Dealing with People*

Efficient leaders are careful in dealing with people. They take many precautions which are neglected by lesser men, because they know that only through other people is it possible for them to succeed.

Public relations consists of a great many little things, most of them arising out of thoughtfulness on the part of the business man. For example, Timothy Eaton saw an old lady having difficulty in climbing the step into his first Toronto store: next day the step was replaced by a sloping walk.

There are no persons so insignificant but may some day have it in them to be of use to you, and to quote Edmund Burke on the other side of the matter: "There are critical moments . . . when they who are too weak to contribute to your prosperity may be strong enough to complete your ruin."

In short, the business man must think more of others than of himself, because he can earn his profit only through his ability to please others. He may have queer ideas and theories about politics, religion, the Chinese, or the state of the universe, but in his business life he must have the common sense to be guided by the wishes of his customers.

That, of course, is one of the marks of our economic system. No plan of coercion by the state will result nearly so well in giving people the things they want as will the efforts of private enterprisers to give people what they desire.