

Functions of Middle Management

By R. G. PARKER

Continental Oil Company

For years, when I was working in field operations, one of the hardest things for me to understand was why we needed anything more than a district office and a few people in headquarters. Now I just wonder why we have so many people in headquarters! The operating problems today are such that each of you should spend a major portion of your time thinking about how to make more money. You are all under pressure to keep your costs down—but don't lose revenue. You see evidence of over supplies of crude and gas, of lowered prices, of added controls, and in spite of "wool pulling" by politicians, of higher taxes. Yet the revenues generated by field operations are high. They are probably the largest single source of revenue to the integrated oil company. Your operating costs are relatively small compared to your revenue. So why do we need any more than an efficient operating management with a few people at the top?

The answer, of course, lies in the fact that crude oil or gas in place or at the well head is worthless. It isn't even worth as much as coal which can at least be hacked out by hand and thrown into a fireplace. To bring oil and gas to the well head and sell it profitably requires far more people than you have in your production districts, and much more money must be spent to make the oil and gas have value. Many millions of dollars must be spent in research, in exploration, transportation, refining, and finally—marketing. When any of these high-cost segments get out of balance there is chaos in a company—or in industry. For most operating people the cost of these "outside" functions has little meaning; it is someone else's worry. Exploration costs can eat up a fourth of your revenue, and development costs can get another third. Frequently, there is little left over.

Someone is going to have to coordinate all this spending and revenue generating if a company is to continue to stay in business. A company, as with a ship at sea, has many people who control its movements. You can imagine how much progress would be made on a ship headed for Europe if quartermasters on different

watches each steered his own course, respectively, for London, Cadiz, and Nigeria. Just as a navigator is needed to plot a course for a ship, middle management is needed to give direction to operating management to achieve a common purpose.

Middle management, as the name implies, is the group in the middle between top corporate management and field operating units. Every successful organization has a middle management. Sometimes this functional group is hard to recognize, but it is there none-the-less. To successfully manage a company there must be: (1) a top or corporate management, (2) a middle management, and (3) an operating management (in oil field terms, a district or field management).

The function of top management is to handle corporate matters, provide funds, and establish general policies for operating, types of business to pursue, financial criteria, public relations, personnel and other functions. You will note I say "general policies." Policies that are too restricted or specific in scope are dangerous. They limit freedom of action that is necessary for a decentralized operating unit such as the one to which you belong, to act or to take advantage of an investment opportunity. You have all heard the expression, "Give a man enough rope and he'll hang himself," but give a well trained supervisor authority to act under liberal, but well understood, policies and he will make your company grow and profit.

I would like to dwell for a minute on the importance of "general but well understood" policies. Many of the following comments are based on this concept in the operation of a decentralized organization. New management concepts generally recognize the effectiveness of a decentralized company in which the decision making is posed as far down the line as is compatible with the type of decision to be made. If, however, these general policies are not well understood, it is all too easy for the operating or district managements to take off in many directions. General policies well understood by top management are not always as understandable as lower levels. Any deviation in how they

were intended to be applied is most disconcerting. Let me cite one example:

Most corporations like to see their employees active in civic and political affairs. I know of one such supervisor who took this to heart and actively participated in local politics. He attracted the attention of management and received many compliments on his activity. It was not long before he ran for office, was elected, and got more compliments. He was enthusiastically carrying out management's general policies. The next thing that happened was his appointment to be Party County Chairman. As you know, this is an honorable position, but it had one main requirement. You have to raise money. In his capacity as a company supervisor he had to hire numerous outside service companies. As you know, no one company uses every service company equally in any given area. How could this well intentioned man get money for his committee, use only some of the service companies, and still maintain his and the company's good name in that area? Obviously he could not. His position became untenable—he had to get out of politics.

This may sound like a rather obvious example of a situation not to get into. It is, however, typical of the type of situation that a company can get into if it does not have an effective middle management group to properly interpret the general policies established by corporate management.

Decentralized organizations can be either highly effective or thoroughly confused. The key to increased effectiveness lies in the manner in which policies are developed, maintained and carried out by middle management. This is probably the single most important function of this organizational group. Policies should not be considered as fixed, immobile, inflexible instruments. They should be flexible enough to meet emergency situations. They must change with industry conditions, and they must be ever sensitive to the limitations imposed by economics, the ability of the supervisors, and competition. Although policies must be flexible they must also be stable enough so that organizational units can make operating plans without fear of proceeding half-way toward an objective before being forced into a change. This is not only a wasteful use of manpower, but is demoralizing. Thus effective policy interpreting and developing by the middle management group can assure the company of a fast moving, highly effective operating management.

Let us take a look at the application of middle management policies in carrying out the so-called functions of management. These functions are generally recognized as:

Planning	Coordinating
Organizing	Controlling
Staffing	Communicating
Directing	

To this list I would like to add one more—"Motivating." All are closely related. Changes affecting any one may require a close look for a need to change others.

PLANNING

Nearly everyone likes to think about security and stability. We like to know "where we stand," or "where we are headed." When we do, we have a comfortable feeling that all is well with the world. A good many people favor the "where we stand" attitude because it appears to have the least effect on their personal security. It also requires the least amount of mental activity. Unfortunately for them, the greatest amount of security and stability is afforded in a dynamic organization that knows "where it is headed." And how does it **know** "where it is headed"? — By Planning!

It is the responsibility of middle management to develop plans, with the help of the operating management, that will enable a dynamic group to forge ahead of its competition. You have all heard the complaint that we can't get money for this or money for that! Why can't this be done? Nine times out of ten, money will be available to the manager who can show top management that his requests for money are a part of a plan and that each request is based on some well thought out detailed planning. This is particularly important in the oil industry today due to the increasing difficulty of locating profitable prospects. Drilling costs are high and completion costs are higher. The manager who doesn't actively criticize the work he does, to develop better drilling methods, to find the limitations of his equipment, to seek out reasons **why** he has trouble with his operations and what can be done to eliminate this trouble, cannot possibly develop plans to successfully reach his objectives. He will not get money out of top management. Conversely, the manager who does will be successful. As hard as times may be now, it is easy for the successful manager to get money. Too frequently I hear complaints

of "bad luck." Nearly always bad luck can be traced to inadequate planning. Middle management's responsibility lies in the area of assisting in the development of, or approving, plans made by operating management. It is frequently much easier for a well informed middle management to perceive flaws in plans or in the execution of them. Too frequently operators are so close to the many details of getting a job done that the impact of any one on the whole may be lost. At this point middle management can contribute a valuable service.

Planning can, of course, take many forms. Most of you are familiar with these, and there is little to be gained by discussing them except to briefly summarize. You are all familiar with **capital budgets** on which your yearly plans will be based. **Expense budgets** may be used to tell management how much money you need to operate. They may also be used to control your operating activities. Any **control** here requires expert planning. Closely related to the above two is the **setting of objectives** or goals which may be short range or long range. Each echelon in an organization may have its own set of objectives. It is important that the objectives of operating management be **coordinated** by middle management in a manner that is consistent with company policies and in a manner that will continue to **motivate** operating management. This is not always easy to do.

ORGANIZING

Since middle management is responsible for policy interpretations and planning to reach the goals or objectives set by top management, it must also be responsible for the organization structure to reach these goals. Here again, it is necessary to be able to evaluate properly the many conditions under which work is performed. The proper setting of objectives by the operating units makes it possible to delegate authorities to get the job done. Thus organizing involves not only the structure but the delegation of authority and fixing the relationships between the structural groups.

Why should these responsibilities be delegated to middle management instead of the field management?

No single segment of an organization can be allowed to set its own terms and conditions. Many complaints are heard about limitations imposed, but little is heard about the services performed by the service segments of the company, such as getting money from the treasury

or help from the attorneys when you are sued.

Consistency in organizing a group makes it possible to delegate authorities to all units without fear of granting more than any one unit can handle. This serves also to prevent discrimination between groups, to simplify staffing requirements and many other functions of management. Personnel can be transferred from one unit to another with minimum orientation problems. Personnel being promoted and transferred can bring a wealth of experience to their new groups. It is difficult enough to get acquainted with the people, but if they have to learn a whole new system, their usefulness is frequently lost. Uniformity between units of the organization involves not only the internal structure but relationships between functions performed by field personnel, engineers, administrative men, and other technical groups.

Organization structures must be flexible enough to absorb changes in local and industry conditions. There usually comes a time, however, when industry advancements are such that an overhaul of organization structure and methods are necessary. Middle management needs to be alert to the need for these changes. They cannot be taken on lightly, and they must be applicable to all segments of the organization. The oil industry has experienced many such changes in recent years in an effort to get more competitive and to improve its oil finding ability. None have ever been made without serious adjustments in the lives of those involved. Adverse adjustments to a few can have an impact on the productivity of all, and few companies today can afford a loss in the productivity of its employees. It is therefore important that any changes be carefully planned by middle management, that they are thoroughly understood by all involved, and that they are really necessary. The profit potential from such a change must be absolute and must be long range. We must recognize its impact on the lives of employees, general public, customers, government, and training needs.

STAFFING

Middle management's function in staffing closely parallels its organization requirements. Basically, this means that it must obtain a balance in the capabilities of key personnel in each district group. When a vacancy occurs, long hours of thought are necessary to assure that the replacement will be compatible with existing personnel, will improve the capability

of the unit to make a profit, and that the advancement will be a step upward in training the man for higher positions. Modern industry today cannot afford to allow staffing to be left to providence, seniority, or the whims of any one individual. It is middle management's responsibility to assure all units of the most capable people available.

How does it do this?

Since very few people just happen to be "available" it is necessary for a central unit to be responsible for developing policies to assure itself there will be an adequate manpower supply. The proper selection of people we hire is just as essential as the proper handling of raw material in industry. Inferior raw material increases costs and lowers a competitive position. The hiring of people with poor educational backgrounds will do the same. Middle management can do a great service to its districts by setting standards and conditions that make it possible to hire better people.

Hiring good people is only the first step. Continuous training throughout their employment is also necessary if they are to be upgraded. An active middle management must be ever sensitive to not only the training needs of groups of people but of individuals. When this is properly evaluated by appraisals of performance and the preparation of manning and replacement tables a proper manpower supply is assured.

If all individuals were created out of the same mold there would be little more for middle management to do than to develop policies affecting its three principal responsibilities of Planning, Organizing, and Staffing. Most of us, however, are more or less human; we look at things a little bit differently (and some a lot differently). Since these policies cannot possibly cover every single contingency, there are a few other functions that must be considered. They are all very closely related and involve Directing, Coordinating, Controlling and Communicating.

DIRECTING

Middle management still has the continuous task of making decisions. These decisions cover every phase of work involved in running a successful company. A competent operating district is capable of handling nearly every operating problem. Frequently, problems arise that

lead to the involvement of higher echelons of management, other companies, regulatory agencies, etc. These problems are minimized by having highly competent, responsible district administrations. However, no matter how competent they may be, difference in operating philosophy between companies and the need to work closely with civic and governmental agencies involve middle management in the affairs of the operators. For two years now I have found it necessary to become personally involved in audit negotiations with another company. This is not a pleasant task but is necessary because high level people with the other company refuse to grant adjustments and do not care to deal with an operating management.

The function of "Directing" exercised by middle management is most important. Decisions made as a part of this function all have the effect of establishing policy. They point the way that operating management is expected to follow. They are not made lightly. They are made with considered judgment after drawing on all facts and evaluations that the staff can furnish.

COORDINATING

Directing is closely related to coordinating. Decisions alone do no good unless they are **communicated** to all concerned. This action has the effect, when acted upon, of coordinating groups to handle certain situations. Most of our organizations consist of many parts. We have roustabouts, pumpers, gaugers, engineers, geologists, and administrative men. All of their activities must be made to fit together. It is middle management's function to coordinate the activities of the operations group in a manner that will make it possible for them to reach a common goal and be a part of the corporate organization.

The more obvious of these activities by middle management would be the scheduling of training activities, budgets, vacations, personnel changes, and meetings to determine the needs of the various groups. You can imagine the confusion that would result if everyone went on vacation at the same time, or if we paid roustabouts in one district \$3.00 per hour and in another district \$4.00 per hour. Coordinating is a part of standard setting, and this is a function that middle management, as well as operating management, must exercise judiciously.

CONTROLLING

The task of controlling needs to be mentioned because all the previous functions are a part of the over-all control function by management. Middle management exercises most of its control by policies that govern standards of work, by budgets, by staffing, and of course by directive or by procedures that have the effect of policy. Controlling is cyclic. It begins and ends with planning, as the successful completion of one plan calls for the commencement of another.

Other control tools used by middle management involve the use of cost forecasts, production forecasts, progress reports, financial reports, and analyses of work done, or not done. Middle management needs to know "why"! It needs to know what can be done to improve operations. To win the confidence of management you need to demonstrate the ability to successfully manage funds.

COMMUNICATING

Last, but not least, is middle management's communication function. Without the ability to communicate it cannot exercise its other functions. It is most important that this group encourage communications in both directions. Its success will depend on the example it sets in its relations with the various segments of the organization. It needs to be particularly careful of the attitudes established by its managers and by its staff personnel. I recall one case where a manager casually commented to his office manager a well "should" be drilled at a certain location. The ensuing chain of communications went from the region office manager to the division to the district office manager, then to the district engineer, district

superintendent, division superintendent and back to the Region manager. The latter promptly severely reprimanded the division superintendent for submitting such a poor prospect . . . you can imagine what followed!

Communications and the manner in which they are carried out are tools of management to maintain that delicate balance that assures leadership and initiative by each unit of the organization.

CONCLUSION

We have seen many changes throughout the years in the manner in which oil companies have been organized and managed. There have been the hard, tough, rough-and-tumble days of the wildcatter and the gusher, and there has been what we like to think of as the days of "enlightened" management. There has always been a middle management furnishing the connecting link between the top management of Wall Street and the operating management at the well head. Changes have occurred in which additional layers of supervision have been added and subtracted, offices made large and small, and people hired or "retired"—all depending on the management philosophy prevalent at the time. Through it all there has always been an upper middle management that has not materially changed its structure. What it has changed is its manner of policy setting as it affects the functions of planning, organizing, staffing, directing, coordinating, controlling, and communicating. The companies with aggressive middle managements sensitive to changes in industry conditions, who have properly exercised these functions, have survived and prospered. Those who have not are no longer with us!

