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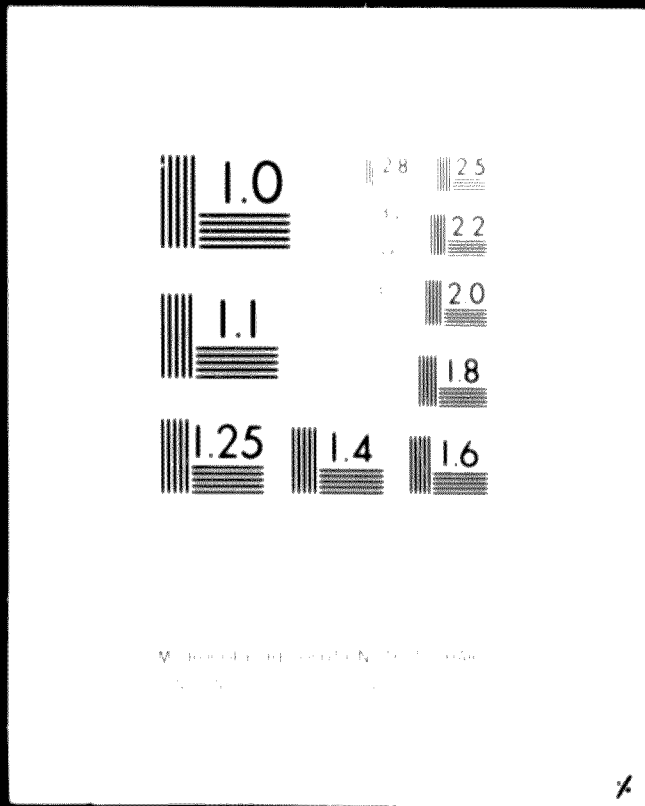
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MANAGEMENT AS A FACTOR IN PROJECT EVALUATION

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## Introduction

1 This paper deals in the main with the problems of management as encountered in developing countries with market economies, but many of these problems are also met with to a greater or lesser extent in countries with predominantly centrally planned economies. They are in many respects similar to those found in developed countries, but with a marked emphasis upon the difficulties arising from lack of industrial experience and of the skills arising therefrom. The writer of this paper, as manager of an industrial development bank, tends to look at the subject from the point of view of the financial backer of industrial projects and his approach is thus likely to be considerably more cautious than that of, say, a Government trying to get a particular project started.

2 When trying to promote an industrial project, Governments in particular, and many other sponsors as well, tend to spend a great deal of time trying to tie up sources of finance and other basic requirements before settling the question of management. It cannot be too strongly emphasised that, provided an acceptable feasibility study shows that a project is likely to be commercially viable, it is relatively easy to find the finance for it if the proposed management is of the highest quality. It does however appear to be extremely difficult to get this fact across to many sponsors and to the industrial promotion departments of some Governments. It is for this reason that the writer's first question when opening discussions with sponsors on financial participation in a new project is invariably to ask what arrangements are proposed for management. In many cases sponsors are able to give financial and technical data in some detail at this stage but tend to be vague about managerial arrangements. The best advice in such cases is to suggest that the sponsors first settle the question of management before discussing further the other aspects of the project.

3 From the point of view of the lender of money to a project, management is of more importance than the security offered. Although the lender may take as security for his loan a charge on part or the whole of the assets of the project, his ultimate security is invariably the quality of the management. A factory full of machinery in some relatively remote corner of the world is almost valueless unless there are competent persons on the spot able to make it work and produce goods saleable at competitive prices.

4 Management is the key to success in any industrial enterprise. In developing countries it is a more important factor of production than elsewhere, but it is unfortunately true that whenever and wherever the subject of industrial development in such countries is discussed there invariably seems to be a lack of emphasis upon management and its problems. Industrial development is very much concerned with human beings as well as money, machinery and merchandise, and it is for this reason that it was considered worthwhile to present a paper on the subject of management at this Symposium.

#### Attracting good management

5 There are many methods of obtaining management for a project, but in the conditions found within developing countries some are considerably more successful than others. The basic requirement must always be the best possible management that is available. Second best is not good enough since, apart from the management ability needed for any project anywhere in the world, the management must also be able to adapt itself readily to new and sometimes difficult conditions, usually remote from servicing and other facilities, and to deal with the innumerable local problems that arise with sympathy and tact. An essential requirement is to find a working arrangement which will marry technical experience of the industry concerned (usually brought in from overseas) with local experience of the country and its peoples. This generally suggests a management team, since it is unusual to find a person with both the required technical and local experience to manage the project.

6 Without doubt the most successful form of management is obtained by the involvement of a large and experienced organisation from overseas prepared to commit both men and money to the success of the project, together with a local concern with adequate knowledge of the country and its people also prepared to do likewise. In such partnerships, where both sides are heavily committed financially (particularly with risk capital) there is every incentive for them to second their best men to the project. In some countries such projects tend to run into political problems over the question of control. In a number of countries it is politically impracticable for an overseas organisation to hold a majority of the voting equity shares in the project. This does not usually present difficulties over management provided the overseas and local partners together are able to control the project, particularly if the balance of voting shares is held by a local development bank.

7 Where for political reasons a local development agency or the Government itself holds a majority of the voting shares in a project and thus has control, it is frequently found that the best and most able technical partners from overseas are not particularly interested in participating. This is due, of course, to a reluctance to assume management responsibilities without the corresponding control of the company. A compromise is sometimes reached by offering such firms attractive terms to run the project on a managing agency basis, but a good deal of the incentive to make a complete success of the venture is lost, and the value of a partnership with a local company having a knowledge of the country and its peoples is lost. Furthermore, under such conditions it becomes difficult for the overseas firm to make available its best men for the project, since its own financial involvement is relatively small. The tendency is thus for the more second rate overseas firms to be interested in participation on the terms offered, which again does not make for the most efficient running of new industries. There are of course many examples of failure of an overseas company to introduce a product of which they have adequate experience into a new country, just as there are examples in all countries throughout the world of failure by a company to introduce a new product into a country in which they have adequate experience.

8 Countries which insist upon the majority of voting shares in a company, and thus its control, being held by persons and institutions within the country frequently justify such requirements by stating that if the overseas company had control it might exploit the country concerned, particularly the workers in the factory. It is difficult to justify this point of view. The country concerned, through its Government, has the means, the power and the authority to prevent any exploitation, and thus any exploitation which was brought to light would ultimately be a reflection on the Government, being a failure by the Government to prevent it. The cheapest and best form of management is undoubtedly obtained when an overseas technical partner has control of the local company. In such cases he second his best management to the project in view of his heavy financial interest in it, and the relatively expensive managing agency fees are avoided. In a country where local control is insisted upon this cheapest and best form of management is automatically excluded.

9 Management on a managing agency basis by an overseas concern experienced in the particular industry is a very common-place method of obtaining the required expertise for local industries. Frequently the fee includes an incentive in the form of a share in the profits, and the method is often adopted where the investment is small.

firm is relatively small or non-existent. It is particularly difficult to generalise on the success or failure of this method of obtaining management, since the results in different industries and in different parts of the world tend to be very variable. The managing agency system has been most successful in India where for very many decades there has been an established tradition of providing modern management through such agencies. It was particularly valuable in the earlier days in providing a means whereby a relatively limited supply of overseas managers was able to be utilised to run a large number of comparatively small enterprises; but, later, managing agents were also used to provide the management expertise for some of the larger industries. The method does not appear to have been as successful elsewhere in the developing countries, and the results have been very variable. The most successful agents appear to be those who have moved across from India and elsewhere where the tradition is already established, and who are thus able to combine technical expertise with at least some knowledge of some conditions elsewhere in the developing world. The least successful have been those who have come straight from Europe or North America without the least idea of the conditions they could expect to meet in the project country. In developing countries with market economies the managing agency system is in general a relatively poor substitute for direct management through a partnership between overseas technical expertise and local knowledge, particularly when both the partners are heavily committed financially.

10 The turnkey project enjoys a certain vogue in some countries. It is perhaps most successful where there is a captive local market for the end product and where the market is not particularly susceptible to changes in the price of the product. Its chief disadvantage is its high capital cost, brought about by the necessity for the sponsors to include every possible contingency before quoting a price for the project. Management proposals are frequently found to be unsatisfactory. Management is usually provided in the first instance by the sponsors for a specified and fairly short period during which time local men are trained to take over all management posts. Sponsors are frequently the machinery manufacturers, or a consortium in which such manufacturers predominate. Machinery manufacturers in general have not the right kind of experience to manage factories using their machines. Their management expertise lies in designing, producing and selling their machines, and not in manufacturing and selling the end product from these same machines. Thus management of a turnkey project is frequently found to be mediocre, with high costs of production. In cases where such projects are profitable this is

frequently found to be due to the captive market in which they operate. In such projects the prime objective of the sponsor is to sell his machinery, and the necessity of providing management for the project for a fixed period is regarded as a form of after sales service and as an extra burden necessary to get the sale but to be shed as soon as practicable. There are, however, a few machinery manufacturers who specialise in turnkey projects and have as a result realised the importance of providing capable management able to impart its skills to local persons. These firms usually have a small department staffed by experts in the manufacture of products from their machinery who are capable of teaching others. It is to be hoped the numbers of such firms is increasing.

11 Perhaps one of the most alarming trends in recent years has been the way in which export credits have been used to push machinery sales. There have been an increasing number of so-called "projects" put forward, mostly to Governments or their development agencies, in which the terms offered appear prima facie to be extremely generous. Such "projects" frequently offer large loans with long-term repayments at very low interest rates, and the sponsor frequently offers to invest in equity, on occasions for eventual sale to the Government or its agency. Most of them are grossly inflated in cost, doubtless to cover the alleged attractiveness of the offer. Of those the writer has investigated, most appear to be devoid of the basic requirements for a successful project. It is extremely rare to find one based on an acceptable feasibility study. Few seem to contain an awareness that apart from long-term finance for fixed assets some long-term funds will be required to cover part of the working capital. Most of them contain proposals for very small equity participation coupled with a very high proportion of loan, giving impossible equity/loan ratios. The loans are frequently tied to some form of Government guarantee. In many cases the machinery appears to be unsuitable, apart from its excessive cost. In all cases it would seem that even if the sponsor were to lose the whole of his equity participation he would still make a handsome profit on the sale of the machinery. Management proposals are usually non-existent or brushed off with a vague promise to help in the recruitment of suitable officers. One appreciates the desire of Governments to get projects started as quickly as possible, but in the case of the "projects" mentioned above their costs are far too high, and their economic benefit to the country of very doubtful value, together with their heavy burden



back to the introduction to this paper wherein it has been remarked that, provided an acceptable feasibility study shows that a project is likely to be commercially viable, it is relatively easy to find the finance and technical expertise for it if the proposed management for it is of the highest quality. The most satisfactory procedure for any project is first to prove its viability through an acceptable feasibility study, then to find the best possible management to run it; after which problems of finance, machinery and the like are relatively simple.

#### Basic requirements for good management

12 Good management begins at Board level. It is essential for the shareholders to appoint capable directors to the Board of the project. The Board must draw up and establish the objectives and policies of the project, and lay down the general principles for it to follow. The Board's fundamental task is to select the best management and to ensure that it retains its efficiency at all times. It must, however, leave the manager to manage the project and should not in any way interfere with his functions or intervene in purely management matters. It is not always easy in developing countries to dissuade some directors, particularly those nominated by the Government or its agencies, from interfering with management. Difficulties are sometimes encountered in finding suitable persons to serve on a project Board. It is desirable that some members should have a good knowledge of the country and local business methods, whilst others should have sufficient technical knowledge to make a useful contribution to Board proceedings. A prevalent difficulty in most developing countries is that directors are frequently prevented from fulfilling some of their functions efficiently due to a lack of up-to-date financial and production data on which to base their policies.

13 If good management begins at Board level, its focus is the chief executive, the general manager of the project. Whether the manager is obtained through the sponsors, through managing agents or by any other means, he must be the best possible person available for the job. In addition to the usual qualities required from managers anywhere in the world, including a proven record of wide management experience, the characteristics of leadership, broad technical experience and financial acumen, he will need additional qualities if he is to be successful in a developing country. Probably the most important is patience and tact.

Managers with these qualities will invariably be found to be more difficult

the customs and ways of the people are likely to be completely new, and in many cases the climate and environment will be found to be alien and difficult. A project can never be successful unless the manager enjoys the full confidence of his Board. He should expect to receive from them their full support, together with their full authority to run the project on the lines laid down by them, and must be responsible to them for all his actions. If he is not given full authority to manage he cannot be blamed if things go wrong. He must attend all Board meetings, both to maintain familiarity with Board policies and to keep the directors fully informed of the progress of the project.

14 The manager must be supported by adequate experienced subordinate staff, and should be capable of delegating work to them whilst retaining overall control of the project. The qualities required from subordinate staff are similar to those required from the manager himself, and patience and tact are of considerable importance. In particular, adequate staff must be available to produce promptly the accurate accounting and production data required to retain purposeful control of production. In developing countries personnel relations are of particular importance, more especially since the labour employed, its traditions and way of life are likely to be entirely foreign and strange to most staff coming in from overseas. The personnel officer must accordingly be chosen with particular care.

15 Expatriate staff bring with them a number of personal problems quite unrelated to actual performance within the factory. In order to be attracted away from his home country the expatriate requires an overseas allowance designed to compensate him for the increased cost of living, for being away from his own country and climate, and to some extent for the loss of the amenities to which he is accustomed. He requires housing and medical services at the project's expense, and rather more generous leave than he would expect if living in his own country. He requires passages for his wife and family, and if suitable educational facilities for his children are not available locally he requires grants to educate them in his own country and annual passages to fly them out during the holidays. Long term continuity of personnel is very difficult to arrange, since long leaves every few years mean a disruption in the continuity of work within the project. Expatriates are liable to return to their country for family reasons at short notice, which again creates problems within the project, particularly the provision of someone else at short notice to take over during such absences.

It is also becoming year by year more and more difficult to recruit management personnel of the right calibre prepared to serve overseas. All in all, therefore, the employment of expatriate staff is very expensive and becoming more difficult as the years go by.

#### Training for management

16 Because of the high cost of expatriate staff every progressive and cost conscious Board will give the highest priority to training local persons for management posts at all levels. Some governments and many politicians are quick to criticise a project which by its nature has to employ a relatively large number of expatriates in the first instance on the grounds that the project has in the main been set up to give employment to expatriates. Few of such critics seem to appreciate the high cost of employing expatriates or the difficulties in recruiting and retaining them, or the fact that every efficient Board of projects employing them will be doing all it can by training schemes to reduce and finally eliminate the expatriates as quickly as possible.

17 It is not intended in this paper to go into details as to methods of training for management, since this is a separate subject in its own right; although it is clear in a number of countries that the method giving the most consistent results appears to be to select promising management trainees as they leave the universities and colleges and give them training, partly overseas in the first instance, but for the most part on the job within the project.

#### Summary

18 This paper may be summarised by saying that first quality management is the key to a successful project in a developing country. Provided that an acceptable feasibility study shows that a project is likely to be commercially viable, it is relatively easy to find the finance and technical expertise for it if the proposed management is of the highest quality.



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