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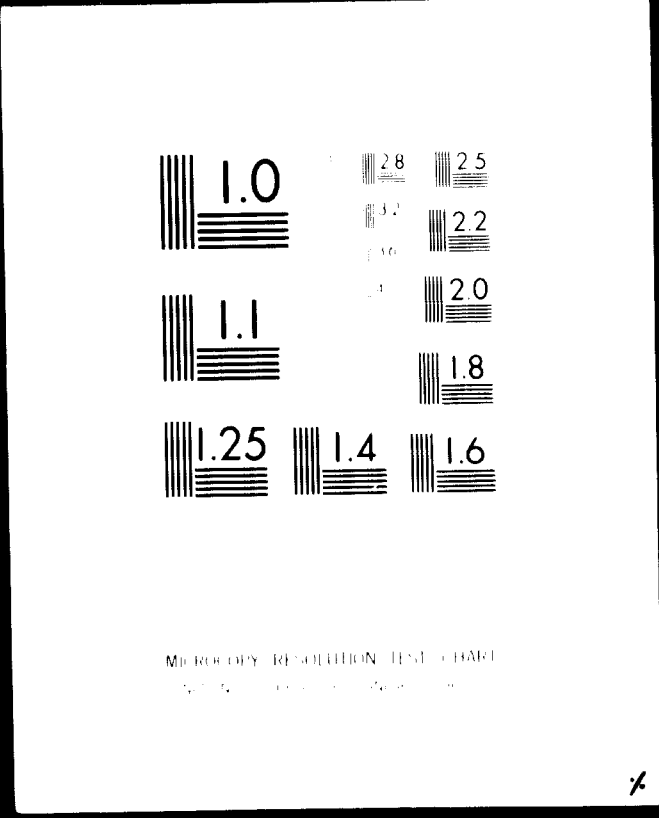
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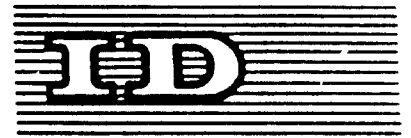


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United Nations Industrial Development Organization

Consultative Meeting of Selected Bilateral and Multilateral
Financial and Technical Assistance Institutions with
Representatives of Least Developed Countries

Vienna, Austria, 29 November - 2 December 1977

MANAGERIAL SELF-RELIANCE FOR INDUSTRIALIZATION:
ISSUES AND OPPORTUNITIES*

prepared by
the secretariat of UNIDO

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1. INTRODUCTION

Governments seek greatly increased economic and social benefits from the immense resources being committed to industrialization. The purpose of this meeting is to consider how international cooperation may support such goals in the LDC's.

From an operational or "micro" view, we may say that the chances for a particular industrial investment project to be successful depend heavily upon (a) the project design, (b) the relevant implementation agreements, and (c) the skill applied in executing and operating the project. To increase the probability of success much attention is currently being given to investment promotion and the transfer of technology. Equally important, but perhaps less "visible" in the recent past, is the development and transfer of management skills.

UNIDO has long been cooperating with Governments in their efforts to increase managerial self-reliance. This paper highlights a number of issues which arise from the experience and identifies opportunities for new initiatives which could provide a desirable multiplier effect. The approach suggested is based on a pragmatic "learn-by-doing" concept.

2. MANAGERIAL SELF-RELIANCE IS A PRIORITY NEED FOR INDUSTRIALIZATION

There is widespread recognition that the managerial aspects as well as financial and technical must be mastered in order to ensure successful industrialization.

The Lima Declaration calls for relevant actions under sections specifying "Measures of National Scope", "Cooperation among Developing Countries", and "Cooperation between Developing and Developed Countries"^{1/}

The report^{2/} of the Intergovernmental Expert Group Meeting on Industrialization of the Least Developed Countries (held in Vienna during November 1976) cites the importance of management in many of its recommendations. The Expert Group called for UNIDO cooperation in, i.a.:

^{1/} Lima Decl. and Plan of Action on Ind.Devel. and Co-op. March 1975. See especially paras 58(i), (k), (n), (o); 59(g), (h); 60(b), (k); 61(d), (n); 62; and 66.

^{2/} ID/WG.234/13, 5 January 1977.

development of special contracts to facilitate beneficial establishment of factories on a turnkey basis; creation of industrial consultancy services integrating management with technical and banking elements; as well as urgent development of industrial accounting systems and skills.

It also emphasized^{1/} that availability of organizational and management skill is essential to ensure the success of industrial projects selected as prime-movers for "diversified development of the national economy".

A meeting of Top-level Industrialists on Factory Establishment Projects in Developing Countries^{2/} was held in Vienna concurrently with the LDC meeting. The meeting formally adopted a number of suggestions to UNIDO for actions to further develop its cooperation programme. The following extracts^{3/} are most relevant:

"Provide intensive assistance through development and implementation of pilot methods and projects, emphasizing countries most needing assistance and generally applying methodology (such as the following):

...

- (b) Provision of a project coordinator and/or specialized technical and management advisers to a new enterprise during planning, construction and start-up of operations.

...

- (d) Advice on negotiating contracts for the acquisition of specialized technological and management know-how without unnecessary concessions.

...

"... When foreign partners are involved, UNIDO should strive to promote cooperation leading to mutually beneficial project agreements and implementation. UNIDO should identify obstacles to increased technical and economic cooperation for accelerating factory establishment and take appropriate action to overcome them."

"Finances available for pilot projects should be enhanced to make the projects a show window for both local and outside parties. Case studies and manuals based on the projects should be widely circulated to increase the multiplier and snowball effect. Also other manuals and cases should be prepared by UNIDO to expand and/or better utilize existing production capacities of the developing world."

"UNIDO should play an active role in helping medium(size) companies of industrialized countries to release their technological and human potential for the benefit of local prospective entrepreneurs in developing countries."

1/ Ibid, pg. 18; under "Prime-mover industries."

2/ Participants from Austria, France, Ghana, Ireland, Italy, India, Morocco, Nigeria, Switzerland, Turkey, Venezuela.

3/ Quotations from ID/WG.237/16, 4 January 1977.

As mentioned in Section 1 relatively less attention has recently been paid to management as compared with technology transfer and investment promotion. Current articles on management transfer, especially those few of an operational nature, often appear to be written primarily for the benefit of potential foreign participants. Sensitivity to developing countries' problems and aspirations as well as awareness of industrialization as an integrated and inter-related process seem to be largely lacking. A notable example of a positive contribution, but apparently one of a rare breed, is a ten-year old book, "The International Transfer of Corporate Skills"^{1/}.

3. ISSUES CONCERNING MANAGERIAL SELF-RELIANCE

It would be easy to construct a long list of issues for such a complex subject. Without trying to be comprehensive we should like to focus on the following five points, which we consider crucial in the present context:

- a) How can we satisfy today's management needs immediately at reasonable cost?
 - operation of existing factories (accountancy, capacity utilization, maintenance, etc.)
 - creation of new enterprises (foreign exchange costs, linkages with other projects, job creation, etc.)
 - enhancement of R and D results and application (project selection, project monitoring, etc.)
 - supervising and supporting bodies (goal-setting, reporting systems, etc.)
- b) How can we integrate the transfer, adaptation and development of managerial skills with the technological, financial and economic disciplines also required for industrialization?
- c) How can we ensure that our local management style truly reflects national needs rather than merely transfers from outside?
- d) How can these management activities contribute to cumulative (self-regenerating) development of self-reliance?

^{1/} Gabriel, Peter P. - Doctoral Dissertation published by Division of Research, Harvard University, School of Business Administration.

- e) What is the proper role of international cooperation (bilateral, multilateral and national agencies)? How can their contributions be most effective?

4. OPERATIONAL PRESCRIPTIONS FOR MANAGERIAL SELF-RELIANCE

Without wishing to pre-empt or limit discussion of possible solutions to the issues raised above, we have outlined a number of measures which may serve to stimulate further ideas. In particular they may be suitable as starting points for the design of technical cooperation activities. The items are intentionally designed to emphasize a "main stream" operational orientation. Although management education and formal management training programmes are a cornerstone of the long-range industrialization programme^{1/}, this paper suggests parallel action opportunities which are directly operational. These actions do provide training, with a strong multiplier effect. They also have the powerful advantage of producing immediate economic benefits.

We stress this learn-by-doing approach because we believe it saves time and gives sound results. The people being trained in this way develop not only substantive competence, but the self-confidence which alone can result in dynamic (self-reliant) industrialization. Following is a representative list of operational measures which Governments might wish to consider, and which could be discussed in the framework of international cooperation:

- a) National Industrial Consultancy Services - useful for pre-investment, implementation and operations. Offer many short and long-term advantages; produce a high multiplier effect.
- b) Management Transfer - guidelines, model contracts and special assistance are available to help ensure equitable arrangements (please see Section 5).
- c) An "Industrial Operations Unit" - may be assisted to apply management skills on behalf of the Government with respect to

^{1/} Formal training courses as well as seminars and fellowships are normal elements of most UNIDO technical cooperation programmes.

setting-up enterprises, monitoring and controlling their operations (financial, production, expansion, etc.).

- d) Specialized Management Techniques - special programmes for strengthening industrial accountancy, management reporting systems, planning and budgeting, marketing, etc. can readily be set up to provide high impact at relatively low cost.
- e) R and P management - simple systems can be applied to improve project selection, monitor cost and schedule performance, and promote the application of results.
- f) Project Planning and Implementation - a range of milestone and network systems can be adapted to help improve and speed up the creation of new factories, while controlling cost.
- g) Commercial Scale Pilot Plants - can provide practical means of adapting acquired management and technical approaches to local conditions, and training nationals to establish similar units (in the same or other countries).
- h) Project Profiles - a number of industrial project profiles are being prepared by UNIDO as preliminary guides for factory establishment. As these become available, evaluation and follow-up (also exchange) can be a productive activity.
- i) Role of Universities - various means are available to associate the high-level skills available at universities with the operational needs of industrialization. Among others, these include assistance in design of investment projects and performance of consultancy assignments.
- j) Inter-country Networks and "Pairing" - offer excellent means of sharing experience and scarce specialized skills among two or more countries at low cost. Can be applied to consultancy, R and D management, etc.

UNIDO has relevant experience in each of the above and cooperates with Governments, bilateral and multilateral agencies, to design and carry out related programmes.

A continuing programme of "tools development" is designed to help Governments directly to increase managerial self-reliance as well as to provide guidance to technical cooperation personnel. UNIDO is also interested to discuss opportunities for joint programmes in areas such as those suggested above. It is felt that contributions and experiences of various organizations could be productively combined.

One of the above areas which has been receiving special attention is "management transfer". The next section goes into some detail as an illustration of the kinds of services UNIDO is called upon to provide in that field. Of course the resources available to UNIDO alone are insufficient to satisfy the rapidly expanding needs.

5. ILLUSTRATIVE EXAMPLE: MANAGEMENT TRANSFER

The following paragraphs illustrate one type of possible operational activities, taken from the outline presented in the previous section. Four examples of recent requests are presented, and a mutually beneficial approach to designing management transfer arrangements is sketched. It is felt that this area offers many opportunities for cooperation among UNIDO and bilateral and multilateral organizations to assist the LDC's.

5.1 Examples of Requests for Cooperation in Management Transfer

UNIDO has cooperated with Governments for some years to achieve transfer of management skills on equitable terms. UNIDO experts associated with technical cooperation activities in the field of industrial investment projects often advise their host organizations concerning terms and conditions of proposed agreements for acquisition of management services. UNIDO staff members on short-term advisory missions and Industrial Development Field Advisers also provide ad hoc advice based on their own knowledge and experience.

But as the pace of industrialization advances, the quantities of money and other resources committed to industrialization increase geometrically. Consequently, the opportunities for international cooperation

to achieve substantial savings of money and time, or increases in project benefits to national economies, are enormous. Four examples of recent requests to UNIDO are cited below to illustrate the need for further strengthening operational technical cooperation in this field between UNIDO and other technical assistance institutions and LDC's.

Example Case No. 1: Establishment of an Agricultural Implements Factory

Several international firms were invited to propose the establishment of an assembly/production unit in a least developed country. UNIDO was requested to assist the Government in evaluating the proposals.

The most favourable of the three offers contained (in addition to technology transfer and licensing provisions) the following additional draft documents covering provisions of management services:

- Founders' Agreement
- Management Assistance Agreement
- Supply Agreement
- Trade Mark Agreement
- Operational Assistance Agreement

Upon examination UNIDO found that the proposed terms of these interlocking contracts would severely limit the "advantages of industrialization" available to the host country:

- Turnover of responsibility to qualified national staff would be many years in the future, if ever. Management training provisions were vague.
- Product design was to be rigidly controlled by international headquarters even though exports of the product were forbidden, thus severely restricting subcontracting to other local industries.
- The foreign firm had an effective veto on nearly all management decisions and was to be exclusive supplier of most production materials at unilaterally set prices.
- The proposed management fees would equal the foreign firm's investment in a few years.

The draft agreements were also notable for some omissions. The foreign

firm accepted no responsibility for marketing, nor for product service (repair and maintenance) which is certainly a critical function in this case.

Example Case No. 2: Establishment of a Fertilizer Factory

Several years ago the Government of a developing country approached the local UNIDO field officer and said: "We have signed a contract for the establishment of a fertilizer factory. Many terms of the contract are flexible and require careful actions on behalf of the Government during erection and operation of the plant as well as during manufacture of the equipment. Our general manager is very capable but has no industrial experience. We would like UNIDO's help to avoid unnecessary concessions and waste of resources in executing the project."

Example Case No. 3: Implementation of Industrialization Programme for a Basin Development Commission

The secretariat of a river basin development commission has completed physical and infrastructure studies and worked out plans for power, navigation, and irrigation works. It has also studied industrial potentials and assigned priority to a number of specific projects, partly with UNIDO assistance. The chief executive has invited UNIDO cooperation to design, install and operate a management system to monitor and control implementation of the projects; identify critical decision points and obstacles; and assist in allocating resources for most practical solutions.

Example Case No. 4: Management of Existing Factories

The Government of a country experiencing sudden and rapid industrialization cabled urgently to request the provision of model contracts for the acquisition of management services for factories producing several products in the chemical and engineering sectors.

5.2 Both Host Country and Foreign Participant Benefit from Appropriate Management Transfer Arrangements

UNIDO is confident that the cases listed above reflect only a fraction of the opportunities for cooperation which can progressively save millions

of dollars and increase economic and social benefits resulting from industrialization.

It is essential to make clear that both sides benefit from appropriate actions in this field. Host countries benefit from increased economic and social gains within the national development framework. Foreign participants benefit through (1) the certain fact that successful industrialization means more and bigger opportunities for their participation in the future and (2) although required adjustment of the terms they would otherwise have offered for provisions of management services in a specific case may reduce remittances in the short run, the changes will help ensure continuation of good relations with the host Government as well as growth and expansion of profit opportunities over the longer term.

It goes without saying that a management transfer agreement is not signed unless both sides expect to benefit from its execution. This is a fundamental law of business transactions. Yet it is possible that management transfer agreements be progressively modified to increase the effective benefits to the host country. How is this possible without alienating or driving away the foreign participants? There are several applicable answers, but one stands out. This is the fact that, typically, many provisions in such agreements are capable of changes which benefit the host country without materially injuring the interests of the foreign participant.

As an example, in Case No. 1 above, it would be possible for the foreign collaborators to assist in organizing repair and maintenance facilities - for a price. This would go a long way towards easing the host country's agricultural mechanization difficulties. Further, the prohibition against local design modifications could be replaced without injuring the functional reliability of the products. Of course, local parts production would increase and imports would be reduced, but the whole business would prosper sooner and product diversification might well accelerate. The foreign participant would be better off in the long run, if he applied imagination to the opportunities.

UNIDO believes that technical cooperation organizations can help both sides to identify and agree on innovative ways to accelerate the international

transfer of industrial management skills on mutually beneficial terms. A programme to pursue that goal has been drafted and funding is being sought.

An important question for discussion is how bilateral and multilateral organizations might best cooperate with UNIDO to achieve desired results in the LDC's. Some possibilities are pooling of resources, making available consultant services on flexible terms, coordinating separate projects, or directly supplementing funds available to UNIDO.

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