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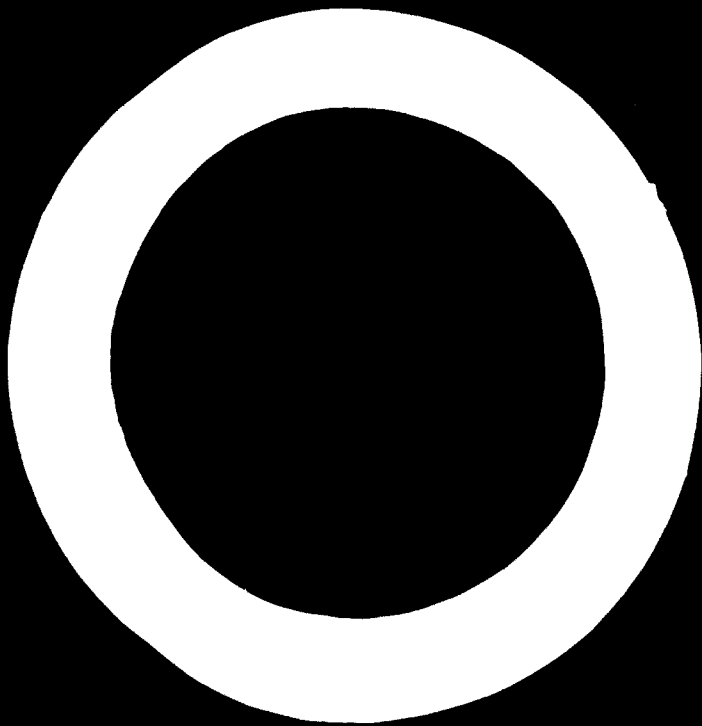
New Perspectives in Management Development
Monograph No. 1

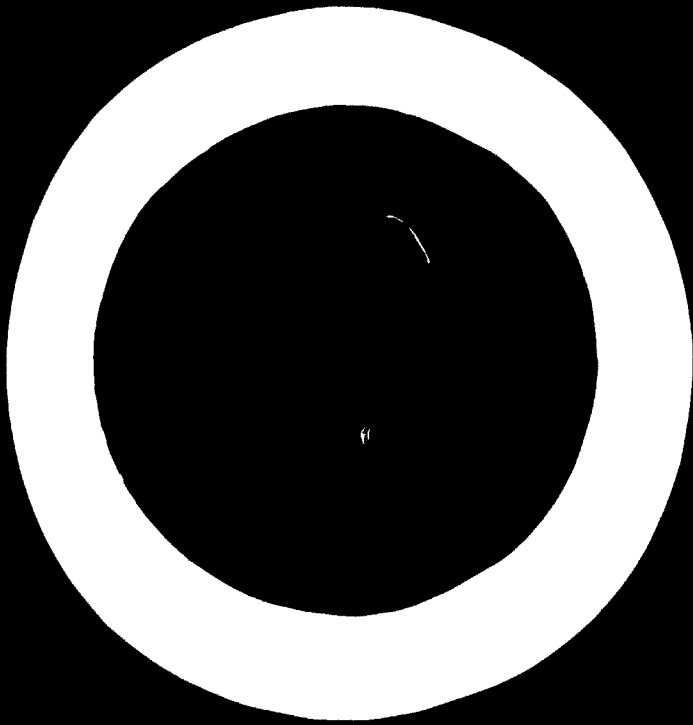
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**INNOVATIONS
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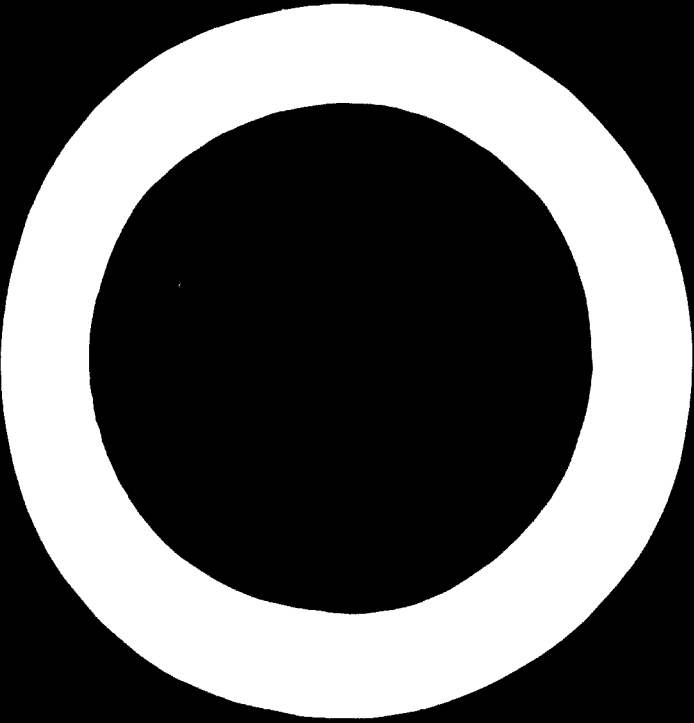


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**INNOVATIONS
IN MANAGEMENT
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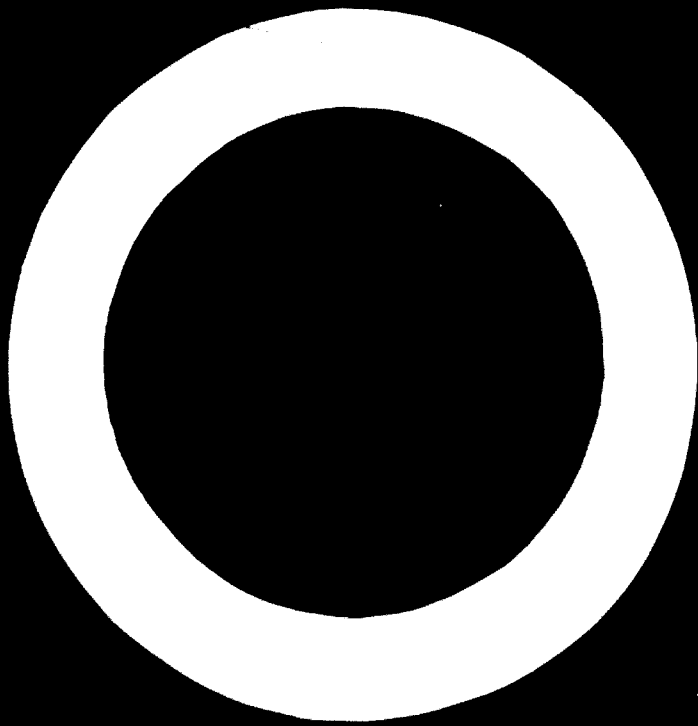


**NEW PERSPECTIVES IN MANAGEMENT DEVELOPMENT
MONOGRAPH NO. 1**

**INNOVATIONS
IN MANAGEMENT
ORGANIZATION**



**UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION
VIENNA**

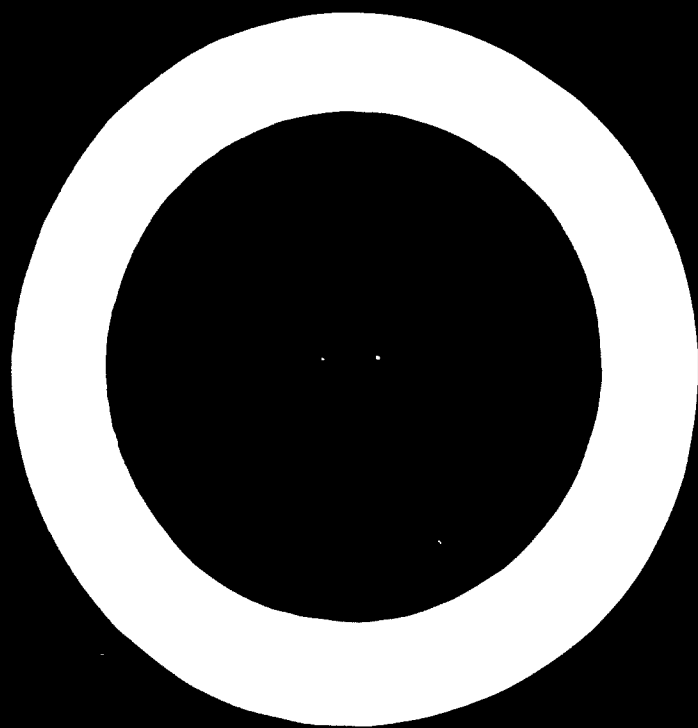


Preface

Industrial managers in the developing countries face complex problems which arise inevitably out of the processes of industrial development and growth. To cope with these problems, UNIDO has had to go far beyond traditional modes of management assistance, which generally help an inept or floundering management bring its methods up to the standard of its own industry. Such methods work in developed countries where everyone speaks the same management language (though some speak it better than others).

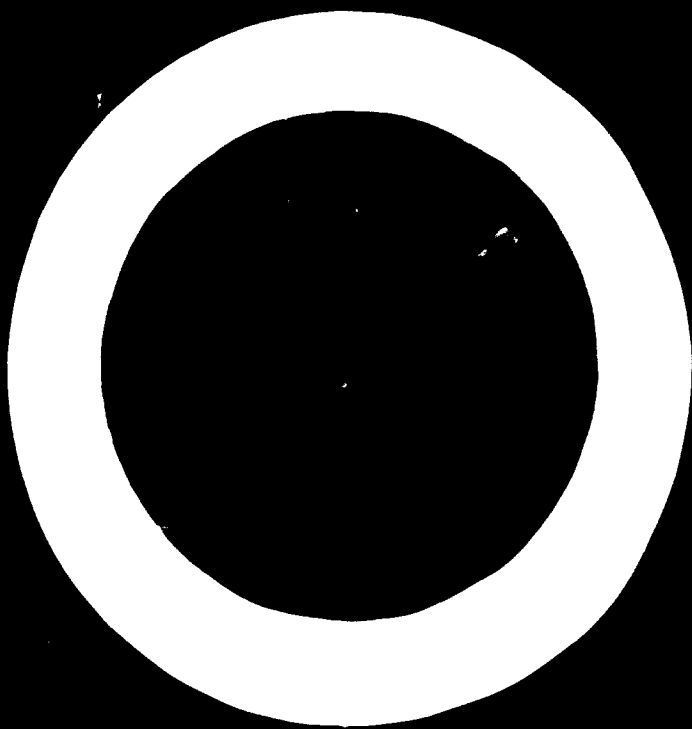
In developing countries, UNIDO not only has to teach the language of management to those who do not know it at all, but it must also adapt the language to the special and changing needs of these countries. The methods introduced cannot be merely elementary; for greatest benefit, the most advanced management techniques must often be applied before the rudiments are grasped.

As a consequence, UNIDO is continually studying the most efficient and effective ways of meeting the specific needs of managers and executives in the developing world. To publicize UNIDO's current efforts in this regard, the Industrial Management and Consulting Services Section of UNIDO has initiated a series of management monographs entitled *New Perspectives in Management Development*.



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INTRODUCTION

There is little doubt that one of the requirements of and most popular prescriptions for industrial progress is good management. However, in the groundswell of interest in the transfer of management knowledge, skills, and techniques from the developed to the developing world, a fundamental and even underlying question arises over the increasing demand for "new" management techniques. For example, one might question the appropriateness of establishing a sophisticated network analysis programme, e.g. the Programme Evaluation and Review Technique (PERT) for the medium-sized and small industrial enterprises found in many areas of the developing world. Nevertheless, there is reason to believe that recent innovations in management practice may be more easily introduced in the developing world than the traditional form of management.

In approaching this problem initially, a critical distinction should be made between the substance of management and so-called management techniques. The substance of management generally refers to basic managerial functions, e.g. planning, organizing and control, whereas management techniques refer to the manner and/or exercise of a specific function. As an illustration, a manager may control his subordinate's activities through budgeting; or he may organize his department on the basis of specific tasks, job descriptions, and charts designating particular lines of authority, reporting relationship and so forth.

Attention should be given also to other fundamental considerations :

- (a) **The application** of a management technique at a given point in time, place, and circumstance requires flexibility in execution. Thus, techniques may range from the "very simple" to the "very sophisticated";
- (b) Managers face certain common industrial problems, problems that are independent of national culture.

Such a perspective, as suggested above, of the functional and environmental aspects of management would better enable industrial planners

to assess the value and practicability of prospective management development programmes for the developing world. This, then, is the subject the author wishes to examine.

The extent to which the recent innovations in management organization and personnel practices are transferable from one industrial environment to another is the subject of this paper.

ORIGIN AND APPLICATION OF "FREE-FORM" MANAGEMENT

Probably more has been written in recent years concerning the application of behavioural sciences in management practice, with the least amount of general understanding, than almost any other aspect of managerial activity. Notwithstanding inherent semantical difficulties, certain new approaches to management organization warrant consideration as either a contribution to the theory or to the current style of management.

Of particular interest in this connexion is a new management concept called "free-form management". Put simply, this concept is characterized by a distinct departure from the classical hierarchical organization. Rather, authority is delegated to independent units, task forces or project teams. Subordinate managers are given almost a free rein as independent entrepreneurs so that they can cope with the change and conflict of today's business environment.

If a given universality and logic in the development of management practices is assumed, then experience with the evolution of a particular management concept or practice in one industrial context will provide, to some extent, relevant guidelines for the subsequent application of the same concept in another context. Harbison and Myers underscore this critical assumption by observing that:

"The general direction of management development in all advancing industrial societies is the same. In the end, management as a resource, as a system of authority, and as a class is likely to be similar . . . as industrialization is an almost universal goal toward which all nations are marching."¹

In this light this paper examines, first, the background of free-form management and, second, its current status as illustrated by selected case studies of companies that have had the longest experience in this field.

¹Frederich Harbison and Charles A. Myers (1959) *Management in the Industrial World*, McGraw-Hill, New York, p. 121.

EVOLUTION OF MANAGEMENT ORGANIZATION

As management has evolved, three reasonably distinct models may be noted: family, production-oriented and free-form. Interestingly, these types of organization relate rather strikingly to the broader stages of economic development,² which, in turn, have been both a cause and a result of general management development. The following figure illustrates the differing styles of management that arise as family control of an organization gives way to professional management.

ORGANIZATION MODELS

<i>Orientation of firm</i>	<i>Family</i>	<i>Production-oriented</i>	<i>Free-form</i>
Emotional	1	3	3
Technological	3	1	2
Entrepreneurial	2	2	1

Legend:

- 1 – most frequent observation
- 2 – second most frequent observation
- 3 – least frequent observation

Family firm

The family-oriented philosophy places a high value on the enterprise as a private, closely knit affair. The family firm is motivated to improve its position because improvement reflects on the family. Usually the top management is composed of blood relatives who will never abandon their posts. They would never transfer their loyalty to any other firm.

Family management has certain strengths but also certain weaknesses. The staff's undisputed loyalty to the firm is perhaps its greatest asset. The firm is thought of as an individual and is highly regarded by family members. It reflects their image and objectives. A further advantage is that the family firm is able to take action without regard to outside influences or pressures.

Yet the very emotional attachment of the family members to the firm may, under certain circumstances, be a weakness. Family members tend to

² Reference is made to Rostow's five stages of economic development. See W. W. Rostow (1962) *The Stages of Economic Growth*, Harvard University Press, Cambridge, Mass.

follow traditions. For example, they may not even consider changing or updating the product line the founders originally developed.

One of the biggest weaknesses of the family firm—the “indispensable man” fallacy—occurs when one man sets all the policies and makes all the decisions. The firm often finds itself lost when the policy-maker dies and there is no one ready to fill his shoes. Another weakness is the lack of official communication in the firm. For example, no top management meetings are held. Further, the firm does not emphasize efficiency; faith is placed in team loyalty as a means of reaching sound decisions and achieving high profitability. Another weakness is that non-family members lack the motivation of the family members.

Production-oriented firm

Management with an engineering orientation views the executive as a specialized taskmaster in production. Efficiency is his main responsibility, and a rigid organizational chain of command is adhered to. This type of management is industry oriented, and the customer is of vital concern. Management focuses its attention on production processes, control and standards. This organization model is concerned with internal finances and uses of resources, cash flows, but is not interested in external financial transactions such as buying or leasing, valuations of mergers and sale and lease back contracts. The production-oriented firm is, therefore, like the family model, internally oriented.

This type of management contains several improvements over the family firm. But it is highly restrictive in form; the lines of authority are sharply drawn. In the early 1960s, engineering management was confronted with dynamic changes in technology and in the market, which required the creation of new products and changes in internal organization. Thus, free-form management was introduced as one means of coping with the need for innovation and changes in management organization.

Free-form

The free-form organization model refers to those firms whose officers, directors, and other key executives view the entire range of corporate functions (such as marketing, research and development, finance) as of equal importance in profit maximization. In this manner, the free-form operational divisions are controlled by guidelines such as rate of return on investment. The free-form company tries to match its internal resources with external opportunities. In short, the free-form company can take advantage of new and changing technology.

From the standpoint of internal organization, the free-form company emphasizes centralized control and decentralized operations by using computers to evaluate performance and by choosing executives who are willing to assume responsibility for the profitable manufacture and sale of the designated product line and the risks that this entails.

Truly, free-form management has thrown organizational charts out of the window. It places little importance on a chain of command. In a sense, it cannot be identified by any one type of management structure; in many ways it is a return to the earlier days of the entrepreneur. This in the final analysis is its strength and its weakness.

Summary

The classification of organizations may also indicate an evolutionary pattern that may suggest the route that management may follow in the developing economies. The family management system, for example, may be common to the early stages in a country's march towards economic development. In developing countries the family, as a dominant social institution, has also served as a logical instrument for business activity. In the developed countries the production-oriented organization emerged as corporate ownership replaced, for the most part, the traditional family-owned and operated enterprise. Finally, as industry became larger and more complex the free-form organization was introduced to cope with the problems of a multi-product, multi-market environment.

The classification scheme may also provide broad guidelines for the analysis and further development of existing organizations regardless of size, type or cultural setting. Taken in this view, the free-form organization style of management represents either an alternative form of organization development or a technique for improvement in present management practice. In either event, actual case experience with the use and application of the free-form model would serve a useful purpose for those contemplating the design of management assistance programmes for industrial enterprises in the developing world.

CURRENT STATUS OF FREE-FORM MANAGEMENT

The reader's attention is now directed to the findings of a recent management survey UNIDO conducted of a cross section of industrial firms

well known for their experience with free-form management.³ In brief, the principal line of inquiry was directed towards the following questions:

- (a) What particular aspect of free-form management was used,
- (b) What modifications, if any, were made to the original plan;
- (c) An assessment of the critical issues governing the success or failure of the respondent's particular experience with free-form management.

It should be emphasized that the experience gained by firms in the industrialized world in the application of this new management concept may point out not only possible areas for use in the developing world, but also most appropriate means of application.

General findings of the survey

The vast majority of the firms surveyed indicated that they have, in fact, made certain adaptations to the general concept of free-form management to fit their particular needs. The findings confirmed that while the substantive aspects of a concept may be universal the techniques of application will vary.

The adaptation of free-form management to fit specific requirements of individual firms has subsequently resulted in the development of several new techniques. To some extent this practice represents the predictable phenomenon associated with a field that is an interrelationship of art and science.

The underlying assumption of free-form management calls for a return to the basic, simple, and down-to-earth view that managers are individuals rather than slots on an organizational chart. Thus, this "new-old" concept of organization would seem a more appropriate one for universal use than the more rigid models of Frederick Taylor and Henri Fayol, who postulated such scientific principles of management as "chain of command", "unity of objectives", and "functional management".⁴ The understanding and support of top management is essential, if free-form management is to be applied successfully.

³This survey covered some 25 respondents who replied in some depth to the inquiry. Those examples cited in the text represent the author's interpretation of certain management practices that may or may not conform to actual company policy at a given point in time.

⁴For a complete explanation of management principles including the works of Taylor and Fayol, see H. Koontz and C. O'Donnell (1968) *The Principles of Management: An Analysis of Managerial Functions*, McGraw-Hill, New York.

Case histories

Pillsbury

Pillsbury's experience with decentralized, free-formed division units illustrates, as the president of the company reports, that "the essence of change is in the style of thought and patterns of relationship among executives . . . not in the structure". Actually, Pillsbury launched its new organization style through an integrated information system, but the implications of this new style became far more important than the computers the company introduced. The new focus was on encouraging managers to turn their attention to long-range planning, innovation and cross-company co-operation.

Texas Instruments

The application of free-form management by Texas Instruments represents, from its case history, a new management technique. Essentially, the management of this company combined certain elements of free-form management with the traditional (centralized) methods of setting long-range goals. In its opinion, free-form management as practised by many conglomerate companies overemphasized autonomous operations, with the danger that the over-all perspective of the company might be obscured, especially in the long run. For this reason, Texas Instruments developed over a period of years a system known as OST, or objectives, strategies and tactics. Long-range corporate goals are expressed as an interlocking series of objectives, strategies, and tactics for each organizational unit. Individual managers are given commensurate authority and responsibility for achieving each goal and for working out the appropriate strategies and tactics. The result is the built-in integration of planning and execution. The advantages, as reported, are, first, OST allows the company to create a new strategy for tackling a specific problem or taking advantage of an opportunity without a reorganization of management; and, second, independent entrepreneurship is encouraged, but within the established pattern of goals. Thus, the company is demonstrating an ability to encourage autonomous management but under broad company controls.

Litton Industries

This company probably more than any other in the industrialized world has revitalized the technique of entrepreneurial management. Beyond the more publicized *modus operandi* of the large, multi-technology, conglomerate companies, one detects a management style that harkens back to the days of the small businessman, when the entrepreneurial spirit was linked with

economic progress. The basis of this type of free-form management is the philosophy of entrepreneurship, which means unlimited autonomy and authority for executives as long as they produce profits. As the chairman of the board explains it, "each of the division managers is responsible for making a profit and managing the sale of his products . . . They are stuck with the authority and responsibility and they can't get rid of it".

In the view of this company, success depends on manning the organization with entrepreneurs and then giving them continual opportunity for personal growth and independence even if it means that some will have to leave Litton for their ultimate fulfillment.

Although a single example, Litton does suggest a contra argument to the charges that bigness, complexity and technology necessarily lead to bureaucratic control, conflict and conformity. In the Litton case, at least, an increase in the aforementioned variables has actually brought a full-circle return to a small business atmosphere. Whether this represents a stable condition or whether it will in time reach a state of diminishing returns remains to be seen.

Critical issues for cross-cultural transfer

The degree to which new management concepts may be considered universal and applicable for cross-cultural transfer may best be summarized under the appropriate "pro" and "con" headings.

Pro

1. To a large extent free-form management exemplifies the new outlook of business. In this context management's prerogative has been expanded to include external affairs and responsibility to society as well as internal concern for rationalization of work. Thus, this broader concept of management would seem more appropriate for cross-cultural adaptation than the previous narrow management principles.

2. From the standpoint of the manager himself, research has revealed that the increased concern for and understanding of the individual, his needs, and motivation would apply equally to the developing and the developed economies. Certainly, the entrepreneurial spirit engendered in the free-form organization is not culture bound, although specific goals may differ.

Con

1. Implicit in the free-form system of management is the dual assumption regarding, first, achievement motivation as pertains to the

manager and, second, co-operation as required in the sense of intra-organization team work. In other words, one might question whether in certain industrializing societies the prerequisites for organization development—perception, attitude and behaviour—can be met.

2. Assuming a given and satisfactory threshold of understanding and creativity, it is still necessary to provide a suitable transfer medium, i.e. a programme format or design.

CONCLUSIONS—FOR FURTHER CONSIDERATION

The strength of the argument for revising the form and substance of management assistance for industrial enterprises in the developing world is obvious. However, the means for effecting such improvement are not so obvious as the aforementioned survey of management practices demonstrated. As a consequence, this presentation has considered tentatively the extent to which certain aspects of new management ideas and practices might be considered appropriate for general cross-cultural application.

In the main, it may be concluded that the free-form model of management represents a means for improving management practices. To a considerable extent this new style of management incorporates a more complete approach to management development than heretofore attempted by various consultants and international agencies interested in international management development. However, the inherent questions of a behavioural nature remain an issue for continuing study. On one side, McClelland and other researchers have concluded that in any distribution of the population a certain proportion will possess an entrepreneurial spirit.⁵ However, to select those particular individuals and integrate them successfully into a thriving business requires a particular atmosphere. In their definitive analysis of international management, Haire, Ghiselli and Porter discovered an underlying management mistrust of subordinates' capacity for leadership and initiative.⁶ Such a prevailing attitude would, of course, preclude the

⁵See D. C. McClelland, (1969), *The Achieving Society*, D. Van Nostrand, Princeton, N.J.

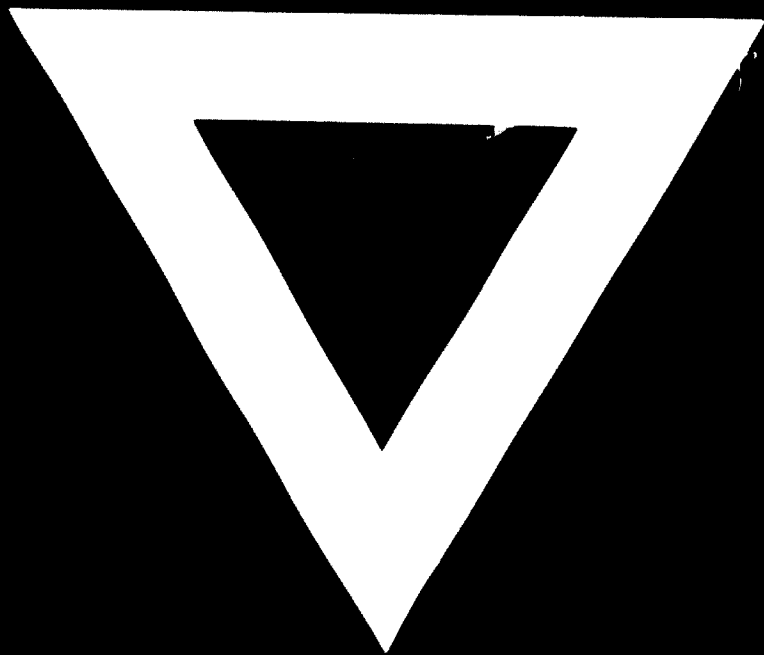
⁶See Mason Haire, Edwin Ghiselli, and Lyman Porter (1966) *Managerial Thinking: An International Study*, John Wiley & Sons, New York.

introduction of free-form management. Nevertheless, this same study found that managers are universally agreed as to the merits of the participation of subordinates in management decision making. The apparent discrepancy between the opinion that subordinates are incapable of assuming leadership roles in an organization and the feeling that participative management is a good thing may be explained by the reluctance of many managers to put a new theory into practice.

For further information on the type of assistance UNIDO provides in the field of management, communications may be addressed to:

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