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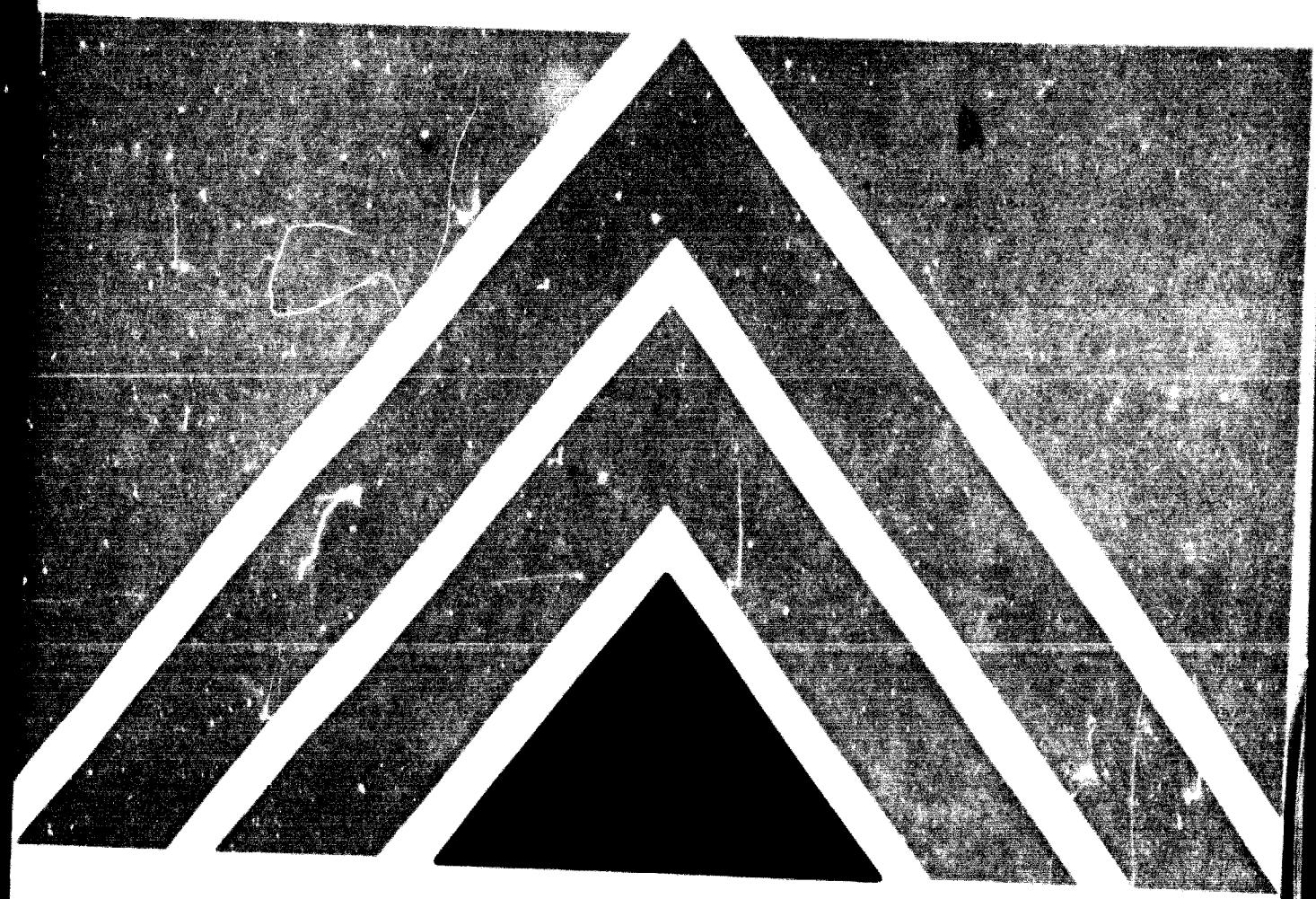
THE DEVELOPMENT OF MANAGEMENT CONSULTANCY

WITH SPECIAL REFERENCE TO LATIN AMERICA



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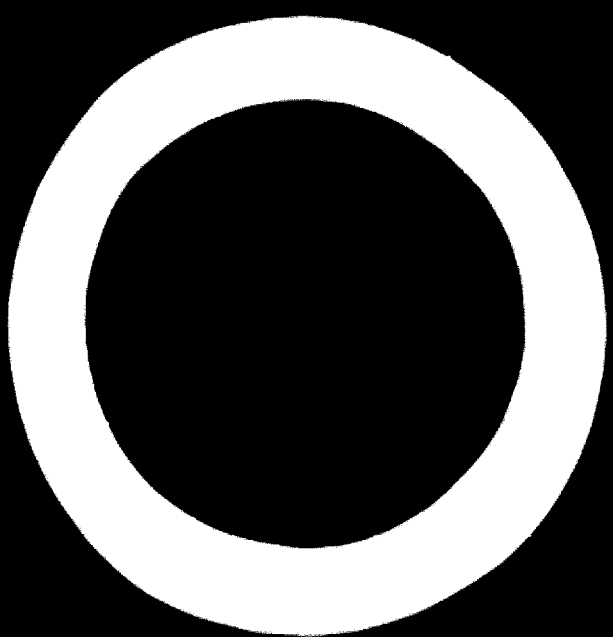

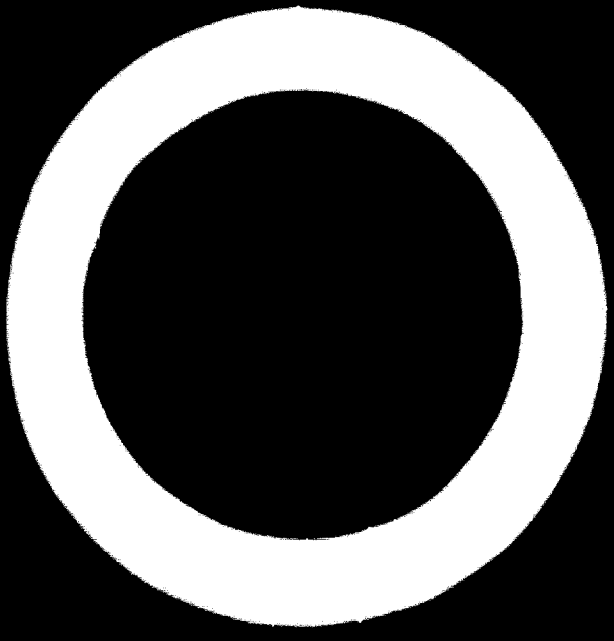

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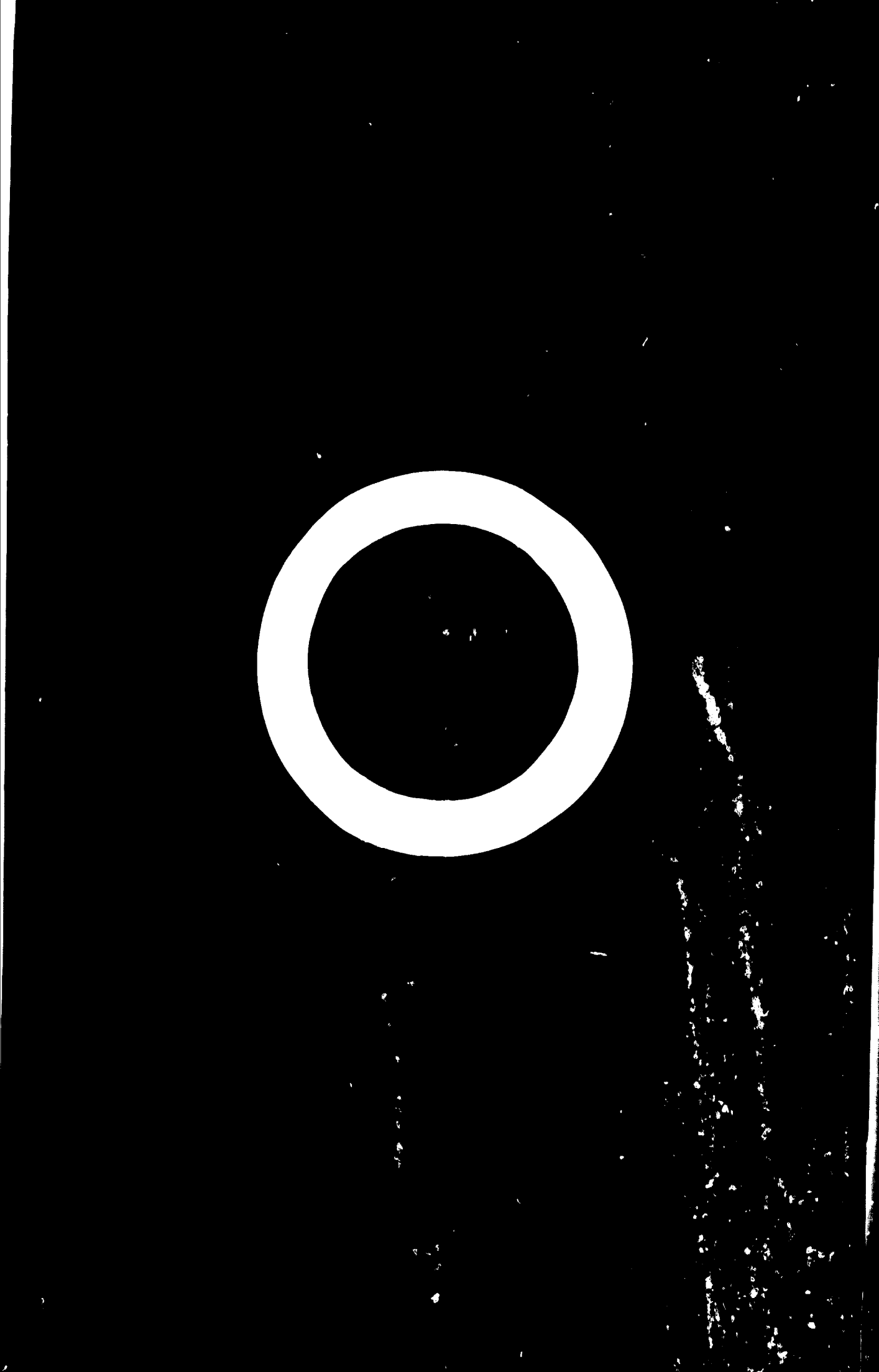

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
VIENNA

THE DEVELOPMENT OF MANAGEMENT CONSULTANCY

WITH SPECIAL REFERENCE TO LATIN AMERICA

A digest of papers presented to the UNIDO meeting held at Santiago, Chile, July 1971

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CONTENTS

Chapter		*Page*
	Preface	vii
	Explanatory notes	x
	Part One. INTRODUCTION	
I.	The role of management consultancy in industrial development *UNIDO*	3
II.	Historical development of management science *G. L. Rounds*	6
III.	The international challenge of professional management development *UNIDO*	12
	Part Two. TRAINING PERSONNEL FOR MANAGEMENT CONSULTANCY	
IV.	Education for effective management consulting *R. Skandera*	23
V.	Management consulting and the universities *K. O. Hanson*	28
VI.	The development of professional management consultants in Latin America *L. Dusmet*	37
	Part Three. BUILDING MANAGEMENT CONSULTING SERVICES IN DEVELOPING COUNTRIES	
VII.	Problems and perspectives of building a management consulting practice in developing countries *B. W. Scott*	53
VIII.	The establishment of indigenous consulting services in developing countries *J. C. O'Melia*	60
IX.	The experience of Japan in developing modern management consulting services *A. Takanaka*	69

Part Four. AN UP-TO-DATE LOOK AT MANAGEMENT CONSULTANCY

		Page
X.	Management science: general systems theory and practice *G. L. Rounds*	81
XI.	The cross-transfer of management skills: cultural aspects and problems *L. C. Megginson*	97
XII.	Diagnostic management consulting *UNIDO*	103

Part Five. MANAGEMENT CONSULTANCY IN LATIN AMERICA

XIII.	The management technology gap and the development of management consultancy in Latin America *E. Jewell*	111
XIV.	Management consultancy in Chile *A. Aguado-Jou*	115
XV.	The development of industrial consultancy in Colombia *H. Plazas Dennis*	122
XVI.	The development of management consulting services for industry in Uruguay *B. Wittich*	125

Preface

This publication is based on papers presented by management consultants and experts assembled by the United Nations Industrial Development Organization in an international meeting held at Santiago, Chile, in July 1971, for the purpose of promoting the development of competent management consulting resources in Latin America.

UNIDO invited to the meeting a team of 12 international management consultants to review previous accomplishments, survey the special problems of management consulting in Latin America, evaluate alternative concepts and practices of management consultants for the resolution of these problems, and provide a technically and economically viable plan for the effective application of the principles of modern management consultancy to the Latin American environment. The consultants, representing both the academic and the professional approaches to management consulting, came from the United Nations, the United States of America, Europe, Japan and Latin America. Selected representatives of Latin American consulting, industrial and governmental organizations attended the meeting with a view to fostering the transfer of management technology to their countries and to the respective cultural backgrounds of their areas. Two experts from the International Labour Organisation (ILO), specialists in management consultancy and currently assigned as project managers of ILO/UNDP-assisted projects in Latin America, participated in the meeting and contributed papers on the development of management consultancy in Chile and Uruguay, reviewing industrial productivity, general management development and management consultancy services in these two countries.

The precise objective of the Santiago meeting was to prepare a plan for the growth and improvement of management consultancy in Latin America — a plan which would help establish guidelines and policies and develop management consultant resources appropriate to the needs of business and industry in the region. Professional, business, industrial, legal and human aspects were considered in preparing the plan.

To bring the plan to fruition, the meeting concluded that it would be necessary to create a system of consultancy that would take into account both national and regional considerations within Latin America and would

be commercially sound and financially self-sustaining. A proposal for such a system appears in the conclusions and recommendations of the meeting, as published in its report.[1]

Contributors to this publication

The present publication is in part a reproduction and in part a digest of the papers presented to the Santiago meeting and represents only a portion of the voluminous material prepared by the consultants and reviewed in the very fruitful discussions held there. In accordance with the severe restrictions imposed on the United Nations budget for the publication and translation of papers presented to meetings, it was not possible to publish in their entirety the valuable papers presented to the Santiago meeting. Instead, the original papers were pruned and edited and material selected carefully from them to avoid redundancy and to present in this volume a synthesis of the material considered most useful and pertinent to the Latin American situation.

The names of the individual contributing authors are indicated as credits for the papers introduced into the meeting, but the views expressed are in many cases the composite expressions of the various experts who participated. Three of the chapters were prepared by the UNIDO secretariat. The wealth of general material on the principles and methods of management consultancy and on the broad experience of the participating consultants will be held as resource material for UNIDO's further research and publications in this field.

UNIDO and management consultancy

UNIDO's predecessor organization—the United Nations Centre for Industrial Development—initiated a management consultancy programme in 1966, and UNIDO, since its inception in 1967, has continued and enlarged the programme. UNIDO's Industrial Management and Consulting Services Section is currently planning and directing a new programme of management services, focusing its perspective on the manager himself and his total needs—including training, decision making, investment promotion and technological aspects of management.

At the meeting in Santiago, UNIDO proposed a model programme which would serve to improve UNIDO's performance in the field of management and to galvanize the further development of local consultancy talent in the Latin American region. In essence, a group of UNIDO consultants would be formed to co-operate with local or counterpart

[1] *The Development of Management Consultancy in Latin America* (United Nations publication, Sales No. 72. II. B. 20).

consultants in undertaking short-term consultancy assignments for industrial clients. The joint group would prescribe appropriate priorities for long-term assistance and would work with local counterparts or representatives from multinational companies, universities, commercial associations or independent professional firms.

Initially, the financing of this proposed activity would depend upon a contribution from the United Nations plus a local contribution in kind. Eventually, it is foreseen that the joint venture would become a financially self-sustaining programme. The task foreseen has both the challenge and the problems of its vastness. In adopting and giving its promise of support to the realization of the proposal, the consultant group which met in Santiago acknowledged that its implementation would not be easy but that the undertaking might be inspired by an old Chinese saying: "The way to the top of the mountain is to start at the bottom."

EXPLANATORY NOTES

A one-year period that is not a calendar year is indicated as follows: 1968/69.

A period of two years or more is indicated as follows: 1968—1969.

The following abbreviations are used in this publication:

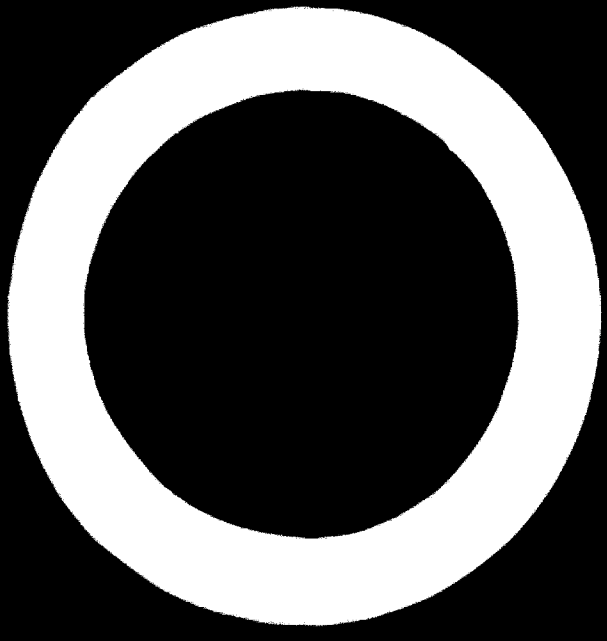
CORFO	Development Corporation (Chile)
CPU	The Productivity Centre of Uruguay
FIMCO	Federation of International Management Consulting Organizations (Japan)
IBM	International Business Machines
ICARE	Chilean Institute for Rational Business Administration
IMEDE	Management Development Institute (Lausanne, Switzerland)
INSORA	Institute of Business Organization and Management (Chile)

United Nations

ILO	International Labour Organisation
UNDP	United Nations Development Programme
UNDP/SF	United Nations Development Programme/Special Fund
UNIDO	United Nations Industrial Development Organization

Part One

INTRODUCTION



I. THE ROLE OF MANAGEMENT CONSULTANCY IN INDUSTRIAL DEVELOPMENT*

Management practice has changed and developed rapidly in recent years and will continue to be revised and redefined in accordance with the changing demands of the business world. Heretofore, management assistance programmes, regardless of source or origin, have generally provided a limited range of services. The earlier versions, even those of the United Nations programmes, emphasized the beginning stages of management development, i. e. work rationalization and technical expertise. Until recently a management consultant was regarded as a narrow specialist. Today, attitudes towards management development in general and management consultancy in particular must be updated and upgraded.

The importance of management cannot be overstated in view of society's insatiable demand for increasing social and economic well-being. The universal process of industrialization to meet these goals calls for optimum utilization of resources—land, labour and capital—and the key to the best use of these resources is professional management. One may conclude that there ist a "logic of industrialization" whereby economic and social progress rests upon requisite management development. Thus:

> "The active forces (of industrialization) are human agents, who create and control the organizations and institutions which modern industrialism requires. They are the ones who build and manage the enterprises which combine natural resources, technology, and human effort for productive purposes. They shape the organizations which link men together with new chains of authority and subordination, which spawn the new centre of power, and thus accomplish the transformation from preindustrial to industrial society."[1]

The logic of management development applies equally to developed and to developing countries. Thus, the problems and the opportunities of management practice confront managers of varied cultural and economic backgrounds.

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* This chapter is based on a paper prepared for the Santiago meeting by the UNIDO secretariat.

[1] Frederick Harbison and Charles A. Myers, *Management in the Industrial World* (New York, McGraw-Hill, 1959), p. 3.

WHO IS THE MANAGEMENT CONSULTANT?

A widely used definition of the management consultant appears in the *Manual on the Use of Consultants in Developing Countries*, published by the United Nations:

> "Consultants are professional problem-solvers, whose expert knowledge may cover a number of traditional professional fields, and who are particularly qualified to undertake an independent and unbiased study of a given problem and reach a rational solution. The value of a consultant lies in his . . . ability to select the course of action which, in his expert opinion, should be implemented."[2]

Another useful definition is to be found in a publication of the Association of Consulting Management Engineers of America in which the management consultant is described in this way:

> "An individual qualified by education, experience, technical ability and temperament to advise or assist on a professional basis in identifying, defining and solving specified management problems involving the organization, planning, direction, control and operation of an enterprise. He serves the enterprise as an impartial objective adviser and is not an employee of its organization."[3]

The functions of the management consultant are generally:

(a) To diagnose a business enterprise, detecting and isolating the causes of problems;

(b) To present recommendations and design courses of actions for solving problems;

(c) To advise and assist clients in the implementation of the recommended courses of action;

(d) To evaluate and follow up the results of the implementation.

The consultant must also be an educator, teaching management principles and techniques and motivating his clients to bring the recommended programme to fruition.

ADVANTAGES OF MANAGEMENT CONSULTING

The primary advantages of management consulting are:

(a) The immediate availability of specialized knowledge, based on the education and experience of the consultants;

(b) The application of this knowledge to management problems;

(c) The use of an objective, scientific approach;

(d) The professional ethics and the high degree of motivation of the experienced consultant.

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[2] United Nations publication, Sales No. 72. II. B. 10, p. iv.

[3] *Professional Practices in Management Consulting* (ACME, New York).

There is a common tendency in many industrial sectors for management, concerned with day-to-day crises, to lose touch with advanced management techniques and the latest scientific and technological developments. When this occurs, industrial products may lose their competitive characteristics; sales may drop, production slacken and costs rise, and new products may not be developed when required. Under the continuous pressure of such crises, management is often unaware of the real problems behind their difficulties, or they may be aware but unable to develop effective solutions.

The UNIDO secretariat has a management section geared to assist the responsible manager in defining problems and selecting an appropriate course of action. The UNIDO programme provides management with direct and tangible illustrations of the value of modern management techniques as applied to individual industrial problems, including full utilization of labour. When applied to an industrial sector, such techniques can often improve the quality of performance of the over-all sector and assist in the development of a stable base for controlled industrial expansion.

II. HISTORICAL DEVELOPMENT OF MANAGEMENT SCIENCE*

Historical development of management concepts

Management, which affects Governments, businesses, churches, homes and, in fact, all operations involving people, is one of the most nebulous functions in society. Essentially all great leaders are managers, whether they manage countries, explorations, wars or other efforts of mankind.

Although current management concepts and procedure are traceable to ancient times, until recently management operated with little or no theory, and the exchange of management ideas and practices was virtually non-existent. In general, managerial principles arose from the necessity to achieve certain objectives and were discovered and rediscovered by leaders in ancient times. But management as a separate process was not defined until the time of Plato and Socrates, and even then the principles were not organized in a comprehensive management system. [1][1]

During the mediaeval period bridging the gap between antiquity and the Renaissance, management was basically organized within a feudal structure; even then notable progress was achieved in organization and management concepts. Machiavelli set out certain management precepts for the successful operation of a state, including reliance on the consent of the people, cohesive organization, leadership by inspiration, and the will to survive. These principles are fundamental to all organized endeavours. [2]

During the industrial revolution of England in the eighteenth century, there emerged a new technology with increased emphasis on the analytical approach to management, using the scientific method of Sir Isaac Newton, John Locke and others. The application of scientific management principles is seen in the early 1800s in the management of the Soho Engineering Foundry of Boulton, Watt and Company in England, and Robert Owen's New Lanark Mill in Scotland. In both cases the basic principles were sound and the companies were successful.

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* This chapter is an excerpt from the paper presented to the Santiago meeting by George L. Rounds, Vice-President and member of the Board of Directors, Temps Research, Inc., Seattle, Washington, United States of America. See also chapter X, which is also based on this paper.

[1] Numbers given in square brackets relate to references given at the end of this chapter.

An early advocate of management based on science and analysis in place of hunch and intuition, General Karl von Clausewitz (1780—1831) [3], wrote extensively on military strategy and the management of large armies. He considered his concepts applicable to the management of any large organization; business, like war, was simply another form of human competition. His major contributions to management were based on the concept that the manager must define his objective, accept the element of uncertainty, and analyse and plan thoroughly to minimize the uncertainty.

The latter part of the nineteenth century brought fuller recognition of the principles of scientific management, oriented to processes, location of equipment, production techniques, incentive systems, organization and efficiency, as well as the need for publications and meetings to exchange views and discuss common problems. A leading proponent of advanced scientific management was Frederick W. Taylor, who began his career in 1874 as an apprentice machinist and patternmaker. His approach to management was developed from the shop up and dealt initially with the specifics of job analysis, employee motion, time standards etc. He cautioned, however, that these specifics were only the mechanisms of management and not to be confused with the fundamentals of scientific management defined by the basic principles of research, standards, planning, control and co-operation. [4]

At about the same time, in direct contrast to Taylor's approach "from the shop up", a French engineer, Henri Fayol, was developing his scientific management theory based on an approach "from the board of directors down". [5] He defined the major management functions as planning, organizing, commanding, co-ordinating and controlling as follows:

(a) Planning: examination of future and preparation of plan of action;

(b) Organization: development of man-machine structure to achieve plan;

(c) Command: direct activity of personnel to focus effort on plan achievement;

(d) Co-ordination: binding together, unifying and harmonizing all activity effort;

(e) Control: ensure that everything is accomplished in conformity with the established plan and command.

His three fundamental concepts involved: the universality of management; the first comprehensive theory of management; and the development of management curricula in colleges and universities. His was one of the earliest defined theories of management based on practical experience.

The twentieth century brought the development of the quantitative approach to management, i. e. "management science". Along with the progressive development of systems science, management science began to use all pertinent scientific tools, including closely integrated, interdisciplinary research teams, to provide a quantitative basis for managerial decisions. Essentially, the management science approach involves these major functions:

(a) Formulating the problem with respect to both the decision maker and the analyst;

(b) Developing a mathematical model which expresses the effectiveness of the system under consideration as a function of a set of variables, at least one of which is subject to control, others subject to random fluctuations and under the control of a competitor;[2]

(c) Deriving a solution from the model: establishing the values of the control variables to maximize the system effectiveness;

(d) Testing the model and the solution: evaluating the variables, checking the model's predictions against reality and comparing actual and forecasted results;

(e) Establishing controls over the solution by developing tools for determining when significant changes occur in the variables and functions on which the solution depends, and modifying the solution to reflect these changes;

(f) Implementing the solution.

During the Second World War the improvement of management science was stimulated through the development of numerous mathematical analysis techniques under the general heading of operations analysis or operations research, involving analysis of the operation of existing systems in order to optimize, with respect to certain constraints and specified value criteria, the current and future operational utilization of these systems. These techniques were used *inter alia* to improve the early warning radar systems, anti-aircraft defense, anti-submarine warfare, civil defense, and the determination of the size and the make-up of sea convoys. The techniques included game theory, probability theory, information theory, linear programming, queuing theory, simulation theory, statistical decision theory, inventory control, sampling theory, decision theory and symbolic logic. Following the war, the armed forces of most countries continued their operations analysis organizations to support military management science development, and in many countries industrial operations research activities were initiated to support the progressive development and expansion of management science.

THE DEVELOPMENT OF SCIENCE AS INFLUENCING MANAGEMENT

The development of physical science in the seventeenth century, in particular the discoveries of Sir Isaac Newton (1642—1727), reduced certain natural phenomena to expressions of basic mathematical laws. The

[2] The general form of the mathematical model is: $E = f(X, Y)$ where:
E = The effectiveness of the system (profit, cost etc.)
X = The system variables subject to control
Y = The system variables not subject to control

new method of physical science involved the joint use of observational and deductive procedures to relate the physical world to scientific method. The basic concept of Galileo (1564—1642), subsequently concurred in by Newton and by Robert Boyle (1627—1691), was that the physical world corresponded to the mechanical-mathematical system described by physical science. The world was seen as a great system of organized matter operating in accordance with mechanical laws. This gradually became the standard view of the physical universe and resulted in attempts to extend the scientific method to a universal science capable of deducing phenomena other than those of physics from simple and universal laws.

Newton and John Locke (1632—1704) were the outstanding scientists in the period from 1680 to 1720—Newton as the advocate of the science of nature and Locke as the advocate of the science of human nature. Newton developed in complete mathematical form the mechanical view of nature which endured unchanged until the current modern revolution in the scientific method. His method involved analysis of observed facts to arrive at a fundamental principle; deduction of the mathematical consequences of this principle; and proof through observation and experiment that what follows logically from the principle is in agreement with experience. This method influenced the social sciences as well as the physical sciences, although the social sciences tended to remain conservatively deductive while the physical sciences grew increasingly experimental, preparing the way for the newer inductive scientific methods of the eighteenth century. [6]

Broad new scientific investigations in the eighteenth century were directed to the collection and classification of a vast body of data about the world and its contents, which were in turn the prerequisite for the hypotheses characteristic of science in the nineteenth century. The experimental method resulted in a new concept of science—empiricism—which, differing from the mathematical rationalism of the seventeenth century, held that science must confine itself to what can be verified by experience. The nature of science changed from a mathematically necessary deductive system (that would explain the reasons for the existence of system elements) to a mathematically formulated but experimentally derived description of events as they occur. Thus, science evolved from the seventeenth century, when science was rational, deducing events from axioms; to the eighteenth century, when science became empirical, describing things or events as experienced; to the nineteenth century, when science became experimental and characterized by extreme specialization required by the vast amounts of data and complicated techniques.

During this evolution, the strategy of looking for the simple part was used consistently, especially in the physical sciences, where the chief concern was the identification of the elements or units from which complex systems are structured. The units were identified and their characteristic properties analysed, but little effort was directed to the synthesis and evaluation of their combined action, although progress in all sciences involved principles of wholeness of organization and of dynamic interaction.

Until the twentieth century, this strategy was the basis for the method of detailed elemental analysis. The rule "separate into parts and analyse one at a time" was so widely followed that some danger existed that it would degenerate into dogma. The rule was often regarded as the basis of what was properly scientific. [7]

THE SYSTEMS APPROACH

The explosive growth of scientific and technological knowledge during the second quarter of the twentieth century generated increasingly complex problems, many of which were not amenable to the method of "separate and analyse". Sir Ronald Fisher was one of the first scientists to face up to a complex problem of this nature. He studied the problem of how a complex system of plants and soil would react to various fertilizers by varying the rates of crop production. From his observations he evolved a new strategy for scientific investigation: to accept the complexity as an essential property not to be ignored, then to leave the internal interactions between system elements intact and to treat the system as a coherent whole.

This initial systems approach subsequently evolved along two major lines producing two different methods.

The first method, essentially *empirical* in nature (developed by Ludwig von Bertalanffy and his co-workers), considers the world as it exists, examines the various systems that occur in it—zoological, physiological etc.—and infers certain statements and conclusions on the basis of the regularities that have been observed to hold.[8]

The second method, *epistemological* (that employed by Sir Ronald Fisher), goes to the other extreme and considers the set of all conceivable systems, regardless of whether they actually exist in the real world, and then reduces the over-all set to a more reasonable size, using the criteria of relevancy and creditability. This method of considering all possible systems has demonstrated its value in several areas of science, for example, crystallography, which involves the study of crystal systems that actually occur in nature, and the mathematical analyses of all conceptually possible systems. The set of all conceptually possible systems must still obey certain fundamental laws, and mathematical crystallography has played an important role in predicting the occurrence of certain forms of crystal systems.[8]

Since systems in the real world are seldom an orderly or complete set, the epistemological approach can be employed to investigate the inter-dependent relationship between major system elements and the laws controlling the degree of interrelationships of the elements, and to develop the rigorous logic of systems science that is necessary to establish the basic hierarchical structure in which all real systems may find their natural relations. This is particularly critical for those complex and composite systems involving the resolution of social problems through the application of the methods of the physical sciences. A. M. Weinberg, in his *Reflections*

on Big Science [9], directed attention to the spectrum of potential problems that arise from attempts to impose the values of a discipline-oriented and fragmented science on a cultural, mission-oriented and cohesive society, thus:

	Basic problem
Science	Discipline-oriented and fragmented
Society	Cultural and value-oriented and cohesive
Problem	Results from attempts to impose solutions and values of a fragmented science on a cohesive, culturally oriented society with different values
Fundamental	Basic objectives and values originate externally while solutions and means originate internally

The need to bridge the gap between the physical and social sciences is indicated by the concept that the basic objectives and values of a system are established external to a universe of discourse, while the solutions and means are established from within. This emphasizes one of the most significant reasons for the development of a general systems theory, namely, the problem of communication among the various scientific disciplines. Although the basic scientific method is common to all scientific disciplines, the results of specialized research programmes have seldom been communicated across disciplinary boundaries.

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III. THE INTERNATIONAL CHALLENGE OF PROFESSIONAL MANAGEMENT DEVELOPMENT*

The need for understanding the management function and improving its performance is clear. The manner and direction in which it should be developed are less apparent. Up to the present, the emphasis in consulting services to management has been concerned mainly with the internal environment and performance of a given enterprise: quality control and operating efficiency have been the major criteria for successs. Now, as a result of the rise of multinational business, managers must also consider the external environment. Indeed, one of the most significant trends in corporation management has been the world-wide expansion of management consulting practice.

Nevertheless, in spite of the increasing international popularity of management, the advancement of international management theory and practice has had less attention than more commercial aspects of international management. There is a certain understanding of the general subject – its theory and practice – but insufficient attention has been given to the more complex matters of *(a)* the nature and extent of environmental influences on management practice, and *(b)* the universality of management concepts, principles and know-how with which to expand and improve the practice of management around the world. This chapter discusses these complex matters in the hope of establishing perspective on international management that will include an appreciation of the opportunities it affords and some insight into the inherent difficulties of providing management assistance on an international scale.

MAGNITUDE OF THE PROBLEM

Differing views

On both the practical and the theoretical level there has been a diversity of interests in international management. Depending on the particular nature of the product and the market, businesses have taken a variety of

* This chapter is based on a paper presented to the Santiago meeting by the secretariat of UNIDO.

approaches to the international environment. Accordingly, the management interest has ranged from that of the older participants in international business – the trading companies, the mining and petroleum companies—to that of the newer companies that have entered the international arena since the Second World War. There are many and varying strategies for penetrating the international markets and a proliferation of organizational arrangements, particularly in the form of joint ventures, namely:

(a) Partnerships with other international companies, local investors, and government agencies;

(b) Licences that involve purchase options and management tie-ins;

(c) So-called "service contracts" between oil companies and national oil monopolies;

(d) Agreements for the management of foreign bank networks.

As each company sought to play its own role in international business, there naturally evolved a pragmatic, company-by-company practice in international management. The individual companies have briefed their executives in preparation for overseas assignments on general economic conditions and the business potential. To avoid "culture shock", personnel being transferred abroad have been counselled on certain obvious aspects of the social environment in their new posts and possibly given crash language courses. Beyond such elementary preparation for handling international assignments, little or no guidance has been afforded in the practice of international management.

A very different approach to international management – somewhat more realistic and far more profound – has been taken by the academic community. Colleges and graduate business schools have offered training over a wide spectrum of functional specialities, beginning with basic courses in international economics or international business. For such training, the universities have considered the international environment and its special demands as a conceptual extension of the traditional functional skills. As a result, courses have been developed in international marketing, international accounting and international finance to meet the needs of both the university student and the business executive. The recent trend in management theory has swung to the study of the social-cultural bases of, and differences in, management practice, with emphasis on the broad influences of a national culture on business and the importance of the international manager's adaptation and adjustment to the foreign work environment. There remains, however, the task of developing a universally acceptable theory of management, which would serve the international manager whatever his level, nationality or cultural origin.

International business is not new; what is new is the size and breadth of its operations. American firms such as Heinz, General Electric and IBM have been international for some time. European companies, such as Nestlé and Royal Dutch/Shell, are well established in world trade. The

demand for a commitment to internationalism as a way of business is best understood by the realization that it does not alter the basic fundamentals, only the implications of new ground rules.

Expanding the scope of management practice to include the world presents problems and opportunities. Perhaps these can best be appreciated by assessing them in terms of the international environment, the business enterprise, and the role of business education.[1] Thus:

The international environment. Important factors that should be considered include:

The world population explosion, threatening the developed as well as the developing countries
The unprecedented development of international communications and transportation (Telstar satellites and jumbo jets)
Mounting international and intra-national social and political tensions
The increasing influence of technology on decision making

The business enterprise. Here one finds:

Unparalleled expansion of overseas investment
Creation of subsidiaries and affiliates by acquisition, direct investment and joint ventures
New forms of organizational structure and novel operational problems in logistics, capital planning, profit retrieval etc.

The role of the business school. The following factors should be considered:

The growing importance of post-graduate education and especially executive orientation
The emergence of an awareness, conceptual and practical, of a new role for business education, going beyond the transfer of business skills, techniques and principles

Prescription for the future

Apart from size as an element in setting the ground rules for international business, it is important to understand the challenges international business offers to professional management. Technological change continues unabated. Many exigencies arise from expanding economies of scale. Such developments as the multiple-access computer provide a driving force in business as well as a broadly adaptable instrument for management control.

[1] C. Jackson Grayson, "Background and objectives of the conference", *Business Schools and the Challenge of International Business*, S. A. Zeff, ed. (Tulane Graduate School of Business Administration, New Orleans, 1968), pp. 14—15.

Technical progress is beginning to eliminate some of the previous deterrents to a truly international approach to business, particularly in the areas of co-ordination and control procedures. Moreover, the advent of advanced corporate planning techniques has facilitated the integration of far-flung international activities into a comprehensive management strategy.

The success of international management consultants in the future may also depend on their ability to meet a second challenge in the years ahead—namely, the resistance to change in the less developed countries of the world. Already the existence of a technological and/or management gap has aroused some anxiety even in Europe. The challenge of nationalism poses a real threat to international business because of the potential conflict over foreign investment. On the favourable side, foreign investment brings a capital inflow to the host country in addition to new technology and economic opportunity. But the introduction of the multinational firm into the country stirs revolutionary forces which may permeate the entire national economic system. It is not surprising that this impact on local business, on labour markets, and even on cultural patterns has created severe social strains, especially in developing economies. The most difficult change of all is the adaptation to modern business management, for suddenly traditional business practices become obsolete when international managers reach out across national borders to produce goods and services for their world customers. This does not mean that the national interest and international business are incompatible, quite the contrary. Whether viewed in the context of an international or multinational enterprise, any business entity has responsibility for its own preservation, but it must at the same time assume responsibility for relationships in the international domain.[2]

Global management

The significance of the international movement in management is aptly illustrated in the following editorial comment:

> "Like potent genies, multinational companies are unleashing new productive capacities around the world as they escape the confines of national markets. Their efficiency in creating wealth and distributing it widely derives from the scale and flexibility of their operations. They have access to capital and technology from many lands; they concentrate investment and management resources wherever business conditions are most favourable; they draw on alternative sources of supply in countries where costs are lowest, and sell through corporate networks that span continents and leap over boundaries."[3]

[2] Traditionally, an international company conducts business from one country of origin; a multinational company utilizes multiple production and/or distribution bases; while a supranational firm represents the ultimate in international organization in that both the operations and ownership of the business are "international".

[3] *Business Week* (19 December 1970), pp. 58, 61 and 146.

Comparative advantage

The term "global economy" is both old and new. It is old in the sense that classical economists such as Ricardo and Smith envisioned a world-wide economic system in which international trade would result in international well-being. The underlying assumption was, of course, the economic proposition of "comparative advantage", wherein trade among countries would be based on the optimization of productive resources, costs and division of labour. Courtney Brown, former dean of the Columbia University Graduate School of Business Administration, explains the modern application in this way:

> "The multinational corporation is a great equilibrating machine, raising production costs where they are the lowest and damping down inflation where it is the highest."[3]

One may debate whether multinational business has or has not created an "economy", but at a minimum a new dimension has been introduced into business, and in turn into the realm of business management. Even the economists are coming to acknowledge that international operations represent an economic activity that fits into the pattern of "conventional wisdom". Perhaps the consideration of a global economy is best described by Judd Polk, an economist with the International Chamber of Commerce:

> "The state of industrial technology—very much including world electronic communications and computers—has created the situation in which, for the first time, men are in a position to treat the world itself as the basic economic unit."[3]

Thinking globally

The opportunities for, as well as the requirements of, world management are forcing management to evolve a new frame of reference for business strategy. Thinking globally, multinational managers must co-ordinate a world-wide programme of production and sales, giving consideration to alternative sources of supply in the various countries; shipping the component parts among the various branch locations; and linking warehouse supplies in such a way as to optimize the trade-off of delivery time *versus* costs.

Large multinational corporations realize various economies of scale, ranging from product costs to capital accumulation. They have entered the international arena both for enlargement of the scope of production and distribution and for reasons of "comparative advantage".

Another facet of the thrust beyond investment in foreign operations is the phenomenon of the "international product cycle". A "trickle down" operation is seen in which new product innovations are introduced, first,

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[3] *Business Week* (19 December 1970), pp. 58, 61 and 146.

in the affluent, mass consumer markets as in the United States; secondly, the new products are exported abroad to countries in advanced stages of economic development; thirdly, when distribution systems have been developed by the exporting manufacturer, foreign subsidiary or branch operations are established to take advantage of a growing local demand; and fourthly, the *bona fide* multinational operations emerge in which the manufacturers are not only concerned with international sales but also with the logistical network of plants and markets.

Outlook

It seems safe to predict that international business and demands for international management will continue to expand in the developing as well as in the developed countries. One can expect the scale, complexity and significance of multinational management to increase immeasurably. Moreover, the differences in national policies, in consumer markets and tastes, and in competition itself, tend to change the ground rules for managerial decision making. As a result, the greatest challenge of all may well be placed on the manager, who serves as the agent of change. A manager who has been successful in his home country may not have the understanding or the skills required in international business.

THE ENVIRONMENTAL ISSUES

It seems reasonably apparent that up to the present the emphasis in management practice has been on a firm's *internal* environment, with special attention to the planning and control of those human and material resources that will enable a business to be successful and profitable. Today, however, managers must take into account the international implications of multinational planning and decision making, and for this purpose they must consider the *external* environment.

The cross-cultural controversy

Concurrent with the development of interest in international management, there is an increasing demand for management "know-how". As businesses expand across national boundaries through various degrees of commercial involvement (licensing, franchising, joint ventures, subsidiary operations), there is a corresponding demand for the transfer of management concepts, principles and techniques from one country to another. At this juncture, a basic question arises concerning the extent to which management is culture bound. (Culture is defined here as the sum total of acquired behaviour, the principal elements identified simply as variables of a social, political and economic origin.) In effect, management

may be viewed as another applied art—engineering, medicine, accounting, for example—consisting of the skilful application of basic knowledge to achieve a particular result.

The cultural elements of the problem are closely associated with the application of basic knowledge. It is possible that the current difficulty in developing an international management theory might be ameliorated if scholars and managers would recall the difficulties encountered in conceptualizing American management principles in the 1950s. The basic problem is the same everywhere. To extend the application of management theory throughout the world is merely another empirical test of generalizations concerned with the effect of environment on performance. In perspective, the manager's test in his new environment involves several levels of analysis: the individual manager himself; the company; the particular industry; and the national socio-economic system. The environmental influences on management practice may accordingly be considered as internal or external, direct or indirect, immediate or long-term.

Management as a factor of change

In addition to the rather fundamental questions regarding the cultural or social adjustment of the manager who goes abroad and the various levels of ecological influence on management practice, there is another facet of the performance environment which one writer explains in this way:

> ". . . Managing goes way beyond passive reaction and adaptation. It implies responsibility for attempting to shape the economic environment, for planning, initiating and carrying through changes in that economic environment, for constantly pushing back the limitations of economic circumstances on the enterprises' freedom of action . . . Management is not just a creature of the economy; it is a creator as well. And only to the extent to which it masters the economic circumstances, and alters them by conscious action, does it really manage."[4]

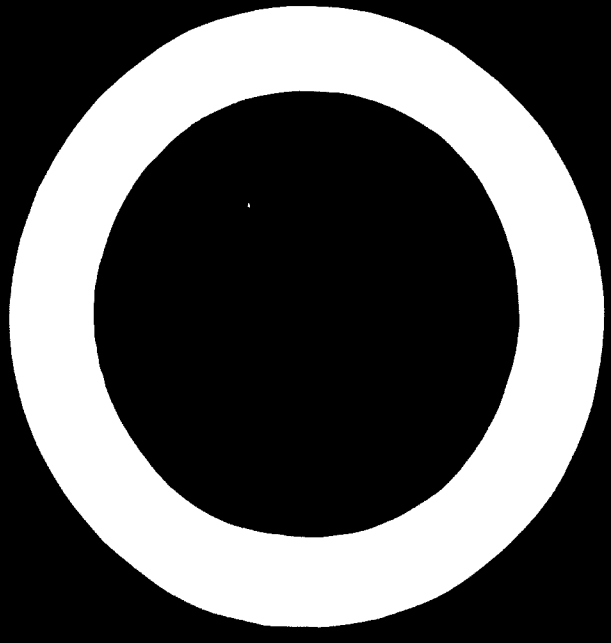
In this sense, environment is not just a causal influence on management, but rather, taking into consideration the environment of the progressive economic development, it is seen as a result of management. This thesis implies a universal logic of management development, applicable to both the developed and the less developed countries.

The common problem facing international managers is the "environment of progress". This proposition illustrates an elementary axiom of the business world: progress is change, for progress is to a large extent based upon change. This transformation process, it should be recognized, includes

[4] Peter Drucker, *The Practice of Management* (New York, Harper and Row, 1954), pp. 11—12.

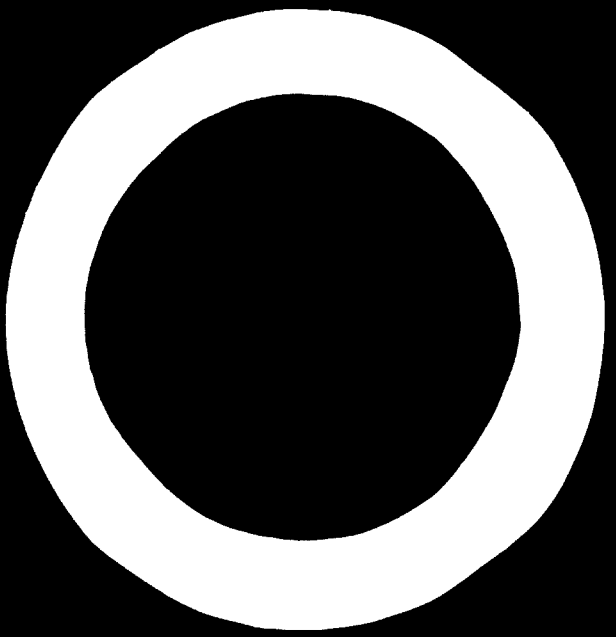
a wide spectrum of factors affecting the business enterprise directly and indirectly: changes in consumer attitudes and tastes, products, technology, markets, competition and so on. In short, progress is the successful change or adaptation of a firm's internal operation to the external environment of opportunity. The adaptation results, in turn, in a number of social and economic changes as management acts and reacts internationally to transfer ideas, resources, products, and personnel in an effort to match technological advancement with material gain.

The process of effecting change is not without costs. The opportunities of international business and foreign investment programmes must be evaluated along with the difficulties of breaking with local tradition and the *status quo*. In this regard, the international similarity of macro-management objectives is often overshadowed by the micro-management differences between the developed and developing management systems.



Part Two

TRAINING PERSONNEL FOR MANAGEMENT CONSULTANCY



IV. EDUCATION FOR EFFECTIVE MANAGEMENT CONSULTING*

This chapter deals essentially with three topics: the relationship between management education and management effectiveness; the relationship between the effectiveness of management or management consulting and the country's economic performance; and the necessity for learning all aspects of management through on-the-job training.

It may be assumed that a direct relationship exists between management education and management effectiveness. The term "management" should imply, by and large, both corporate management and the profession of management consulting. But sometimes the active or performing character of corporate management must be distinguished from the advisory and somewhat detached nature of management consulting. However, this distinction should all but disappear if management consulting is to serve best the immediate needs of economic development. Management consulting should be less advisory and more involved in obtaining immediate practical results.

The effectiveness of management is influenced by the professional organization of management consultants and by related institutional arrangements. For example, national associations of management consultants determine the standards of professional examinations required for professional certification and develop codes of professional conduct, while institutional arrangements regulate and enforce performance in the field and supervise relations between management consultants and their clients.

It may also be assumed that a similar relationship exists between the effectiveness of management or management consulting and the country's economic performance. Hence, management education is a central factor not only in the development of management consulting but also in economic progress, as shown in figure 1.

It seems clear that economic development requires finding and exploiting opportunities, including the transfer of technology. Problem identification, problem solving and implementation of plans must be taught in management programmes, but they can only be learned in actual practice.

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* This chapter is based on a paper presented to the Santiago meeting by Rudolf Skandera, Professor of Industrial Engineering, Pontifical Catholic University, Rio de Janeiro, Brazil.

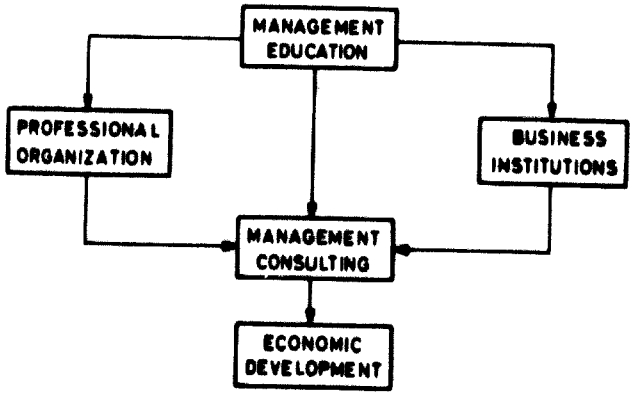


Figure 1. The pivotal role of management education

COMMON KNOWLEDGE

Many of the problems associated with the organizing of management education in the developing countries arise from a tendency to follow the pattern of universities in the United States of America. Management programmes currently offered for foreign students enrolled in Columbia University in New York City are not entirely appropriate for future managers of South American or African or Asian companies, since management systems as taught at Columbia University are likely to be patterned on the giant corporations of the United States.

Another reason that management as taught in the United States is not strictly applicable to the developing countries is that the initial stages of economic development require men of action more than men of thought, while management programmes as developed over the last 20 years have tended to become excessively scholastic, theoretical and detached from the realities of business and industrial life. Programmes of the doctoral or quasi-doctoral type simulate trends observed in the sciences, striving to derive some of the prestige associated with them. As a result, an increasing number of management graduates have been seeking relatively sheltered staff or advisory positions.

It is clear that management education for economic development cannot be drawn from bulletins of established foreign universities. Each country or region must design its own particular management courses, normally comprising four major subjects: quantitative analysis and mathematics; science and technology; industrial psychology; and business and economics. The entire course converges in the disciplines of planning, budgeting and control, which are the quintessence of business and industrial management, elements of these disciplines being contained in each of the major fields. The relationships among the four major subjects and the central disciplines are shown in figure 2.

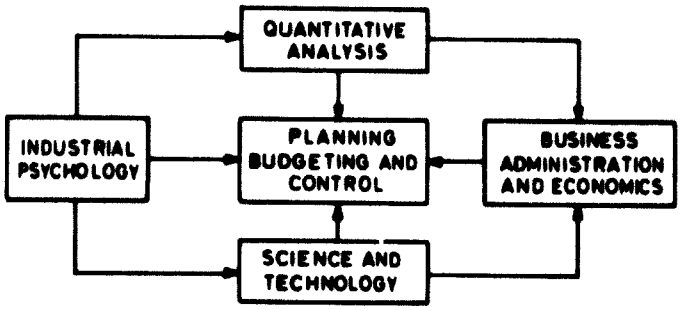


Figure 2. Content of management education

The academic content of the four major fields can be described only in general terms, as the pattern differs from one country to another and from one type of programme to another. Even within any one programme the course work need not be the same for all students. In Brazil, for example, the country's giant corporations, publicly owned or with mixed public and private sectors, are the major force in economic progress and produce the bulk of the national product. Business education there will naturally differ from that in countries in earlier stages of economic development. Similarly, management courses in graduate programmes of industrial engineering will necessarily differ from country to country.

The contribution of each of these four fields is described below.

Quantitative analysis and mathematics. The student entering the business world should know how to identify and solve problems. To promote creative thinking is the primary object of the quantitative course series. The basic reasons for studying mathematics are well known. In modern business the knowledge of mathematics has increased importance: for an understanding of computer and operations research; for the supervision of personnel trained in science and technology at all levels; and because of the increasing use of mathematical and scientific and process control concepts in the common language of business communications.

Science and technology. Science and technology concern both engineering and management so that process control must be studied not only in engineering schools but also in business administration or management courses. In Brazil, process control should be a basic element of the study of science and technology, with aspects of mathematics and engineering and of planning, budgeting and control. As the administrative functions and decision making become increasingly involved with science, the new technology becomes more and more an integral part of business and industrial management.

Industrial psychology. Education in mathematics and science is not sufficient for business education. Economic growth calls for an effective procedural apparatus, and the development of procedures and their practi-

cal co-ordination are perhaps even more difficult than the acquisition of science and technology, because actual operations and procedural performance depend largely on prevailing social attitudes and industrial standards. The curriculum must, therefore, take account of the prevalent behavioural patterns and national aspirations, and this calls for courses in industrial psychology. The study of behavioural patterns must test the student for his ability to exploit available opportunities; productivity of labour; capacity for independent action; and a flair for individual initiative.

Recent research suggests that these abilities can be influenced through curriculum design in a manner similar to cognitive or psycho-motor behavioural changes, but traditional educational blueprints do not include systematic methods for affecting job attitudes. As the student becomes more aware that management functions within a behavioural structure, he begins to realize that it is possible to design deliberately systems for influencing behaviour (e.g. through testing of perception, motivation, anxiety or conflict).

Business and economics. Under developmental conditions the most important function in business, and therefore the most important ability in an executive, is the ability to implement plans successfully. While industrial psychology can produce long-range effects, immediate results are obtained from improved administrative and procedural arrangements. Thus, management programmes for economic development must be based on firm administrative and procedural foundations. For procedural purposes, economics and business administration are inseparable. One important procedure is accounting, and there appears to be a high correlation between the ability to find and exploit opportunities and a solid training in accounting. Public statistics and financial reports indicate that reduction in transactions and precautionary reserves of current assets could be a source of capital exceeding the total of external resources. Underutilization of non-current assets seems to be a phenomenon of economic development. Hence, managerial accounting and courses in financial and asset management must be co-ordinated with analogous topics of the theory of the firm. Such courses serve the objective of economic progress in many ways. They include behavioural propositions, but procedural arrangements are their essential part.

TEACHING MANAGEMENT FOR ECONOMIC DEVELOPMENT

Newly trained or retrained engineers may be expected to assume managerial responsibilities within a few years of graduation from university.

American corporations try to develop management personnel through executive-development programmes, conducted by seasoned executives. Management clinics of this type became a vogue in the developing countries during the 1960s. While this form of training has been a useful supple-

ment to formal education, it is not a substitute for acquiring practical experience.

Management must be taught from the ground up. Actual case work and practice are the only way to train for action and for taking responsibility for the consequences. Such practical training is required for corporate management as well as for management consulting.

First-hand experience is required. To acquire such experience, management students must participate directly in the production system of a developing country. Industry should be ready to support such practical training because it will attract intellectual talent of the highest calibre into the management profession.

Industry can be linked to such practical training in two ways: *(a)* by recruiting the student body, at least in part, from the country's middle-management class; and *(b)* by developing university-industry co-operation for the purpose of the transfer of technology. Each trainee should be expected to define, as a condition for graduation, a practical problem of a real-life corporation. He must be trained to look for problems, to foresee them as they arise from changes in the market or technology and to identify them before they become evident in financial statements or other reports. Each student's experience will be enriched by exposure to the experiences of other students, from other industries.

The student must find a rational solution to his problem. But finding the solution is not enough. He should also be able to plan for its implementation, perhaps only after graduation, but always with the assistance of the management faculty.

It is hoped that such a programme would develop into fruitful co-operation between industries and university faculties. Faculty members interested in research and consulting would gain access to real-life data and real-life problems and would select their projects in the light of the immediate needs of the industries. To serve the need of economic growth, the development of co-operation between students and faculty and the promotion of collaboration between industries and universities in the finding and solving of problems and in the actual implementation of plans would produce immediate profits.

V. MANAGEMENT CONSULTING AND THE UNIVERSITIES*

Universities can make significant contributions to the development of management consultancy. A few universities have already provided considerable assistance, and this may be expected to increase as the professional schools attain higher levels.

Many of the professional schools are relatively new, and business and management schools are among the most recent. The Wharton School of Commerce and Finance, established in 1881 at the University of Pennsylvania, was the first successful university venture in management education in the United States of America. It was not until 1898 that the next business schools were established — at the University of Chicago and the University of California at Berkeley. The School of Business Administration at the University of Washington in Seattle was established in 1917. The greatest expansion in university education for management and business careers has occurred since the Second World War. In some parts of the world, separate institutes of management have emerged, but universities have resisted the inclusion of professional schools of management within the university structure.

The business school in a university setting is in an enviable though difficult position. While its faculty should maintain continuing liaison with faculty in other disciplines contributing to the development of management science and practice (e.g. psychology, economics, sociology, mathematics and quantitative methods), it is also important that some of its faculty maintain links with professional practitioners. This is equally true, of course, for medicine, law, engineering and other professional schools.

The objective of a business school, beyond educating and training present or prospective practioners, is to conduct research relevant to the practice of the profession. The required information and skills may be drawn from two main sources: from the practising profession and from the related disciplines that can contribute to the improvement of professional practice. Ideally, the school will hire some faculty members who are trained to teach and some who have had experience in business. However, there are two problems in this connexion: first, practitioners in the business

* This chapter is based on a paper presented to the Santiago meeting by Kermit O. Hanson, Dean of the Graduate School of Business Administration, University of Washington, Seattle, Washington, United States of America.

world are rarely able to adapt fully to academic life; and secondly, first-rate scientists need the opportunity to conduct research that is more fundamental in nature than that which is appropriate to a professional school. For the business school to participate effectively in teaching and practice, its faculty must be respected in both the academic and the business worlds. To attract first-rate scientists, a business school may have on its faculty several members doing research whose relevance to the profession is not obvious.

Given the two basic sources of information, the major problem of the business school is to synthesize knowledge in order to achieve its objectives. This in turn poses a problem, for, as stated by Herbert Simon, the task of organizing a business school is like mixing oil with water.

> "It is easy to describe the intended product, less easy to produce it. And the task is not finished when the goal has been achieved. Left to themselves, the oil and water will separate again. So also will the disciplines and the professions. Organizing, in these situations, is not a once-and-for-all activity. It is a continuing administrative responsibility, vital for the sustained success of the enterprise."[1]

THE ROLE OF THE UNIVERSITY IN TEACHING AND RESEARCH

Education for business and management

Although university degree programmes are designed for students who seek careers in business and management rather than in management consultancy alone, these programmes provide a good foundation for the development of competent management consultants. There is at the same time great value in educating future business managers who appreciate the value of management consultants and know how to employ their services effectively.

The degree of Master of Business Administration (M.B.A.) is the best known of a number of master's degree programmes in the United States. A smaller number of universities offer programmes leading to the doctor's degree in business and management (Ph.D.) or the Doctor of Business Administration (D.B.A.). Many students who enter graduate programmes in management have already had a few years of experience in business, engineering or production. Management consulting firms recruit these graduates on a highly selective basis, frequently deferring employment offers until the graduates have had further work experience.

[1] Herbert A. Simon has developed a model for a professional school in his article "The business school: A problem in organizational design", *The Journal of Management Studies*, Vol. 4, No. 1 (Feb. 1967), pp. 1—16.

An increasing number of students complete business and management programmes in the United States each year. According to the *Statistical Service Report* of the American Association of Collegiate Schools of Business, 82,222 students received bachelor's degrees in 1969/70, while 19,126 students were awarded master's degrees and 765 students were granted doctor's degrees in business and management.

Universities also offer special programmes for business managers, executives and other professionals already in business. The rapid changes occurring in all facets of managerial responsibility demand continued development of managers at all levels. An age of change characterized by serious economic, cultural and social stress places a premium on managers and executives who can cope effectively with complex problems. Management is faced more and more with challenges that require skill in designing administrative systems for planning and controlling projects and processes more effectively, a broadened understanding of the forces affecting organizational and human behaviour, and a clearer insight into the role of business in society.

A number of universities offer a wide range of programmes. The University of Washington, for example, offers programmes for 1,500 to 2,000 persons a year, the duration of training ranging from one day to six weeks — some for junior management, others for senior management, some designed primarily for the metropolitan area of Seattle, others for upper-middle and senior managers on a regional or national basis.

A one-day seminar on entrepreneurship recently attracted 190 persons who wanted to start businesses of their own or were in the early stages of developing businesses. The seminar was conducted by two faculty members and eight executives and professionals, including patent attorneys and financial experts involved in a wide range of new business ventures. An annual "business outlook conference" features speakers from the Federal Reserve Board, the President's Council of Economic Advisers, leading banks and investment firms, and economists representing major industries, for example, aerospace and forest products. This is also a one-day programme, normally drawing about 400 participants from the Pacific Northwest.

A number of programmes are scheduled in which participants meet one evening a week for a period of ten weeks; many of these programmes focus on the problems of small business. Some concentrate on functional areas—production, marketing, finance and personnel management; others deal with general management and decision-making processes. During the spring quarter of 1971, a programme for export managers was integrated with the senior class in international business. One or two university students joined an export manager in researching the market potential for a specific product in a certain foreign country. The experience of the export manager and the analytical techniques contributed by the students provided a unique learning experience for both.

A programme for middle and upper-middle management takes place in weekly meetings in the late afternoon and evening plus several weekend

retreats over a nine-month period. For upper-middle and senior management a four-week resident programme is offered each summer. Also offered each summer is a resident programme for industry groups, e. g. personnel of savings and loan institutions and commercial bankers. The Pacific Coast Banking School, established in 1938, attracts some 600 bankers, primarily from the 10 western states, for a two-week resident session in August; the participating bankers must complete three of these resident sessions and a series of written assignments in order to qualify for graduation. The faculty is composed of approximately 50 professors, bankers, attorneys and a few consultants from throughout the United States.

Universities are not alone in offering such programmes. The American Management Association offers a wide range of short courses, conferences and seminars. Many large companies also conduct programmes for their managers. Several years ago the General Electric Corporation established a special campus near New York City, and registration in some of these courses was recently opened to managers of other companies. University professors frequently participate in such programmes. All this training contributes to the development of managerial expertise and at the same time helps executives make more effective use of management consultants.

University research to expedite development

The role of a university involves research as well as instruction. Universities are frequently criticized for devoting too much attention to research, particularly basic research, although the distinction between basic and applied research is blurred. Nevertheless, universities have made significant contributions to knowledge through research in many fields, including engineering, medicine, agriculture, forestry, mining, public health and management.

The following are a few out of many examples of gains attributable to such research: the tremendous increase in crop and livestock productivity through research at "land grant" universities; the wind tunnel constructed on the University of Washington campus, which contributed significantly to aircraft design; the improvement of the salmon species and increase in their numbers through research at the College of Fisheries; research at the College of Forest Resources, which contributed much to the knowledge of soils, species, and forest management as well as to the better utilization of forest products; and a programme for organizational and executive development prepared by three members of the management faculty at the University of Washington, which has been used by government agencies, banks, large retail stores and manufacturing companies in the United States and abroad. These illustrations merely highlight the relationship of university teaching and research to the strengthening of management in all fields and the significance of this relationship for management consulting.

Direct consulting services by university faculty members

Most universities in the United States permit faculty members to devote one day a week to consulting, for which they receive fees. During the summer, faculty members may engage in longer-term consulting projects. Properly administered, such activities enrich the professors' teaching and research capabilities and are at the same time an important service to private organizations or government agencies.

Frequently, these engagements are for the purpose of solving a particular problem. The faculty member may work independently or as a member of a team including other professors, company or agency personnel and other professionals. The assignment may involve accounting, budgeting, finance, marketing, production, transportation, organizational design, personnel management or any of a number of topics.

A faculty member of the University of Washington's Management Department recently undertook a summer engagement for a mining company in South Africa to help company managers learn how to make strategic plans, to develop a long-range plan for the company, and to help build an executive team to work harmoniously in joint decision making. Many consulting assignments reverse these goals: the consultants are asked to produce an immediate long-range operating plan. The tangible result of the South African mining company assignment will mean hundreds of thousands of dollars in the growth of the firm. Immediate results are vital if for no other reason than to generate energy and to motivate the client executives. Such motivation cannot be achieved by relying solely on classroom methods to teach strategic planning. This consulting engagement consisted of several phases. The first was a two-day seminar in which consultants presented the techniques of long-range planning, including:

(a) Assessment of the future economic, social and political environment, at home and abroad, within which the company must be successful;

(b) Assessment of the strengths, weaknesses and internal capabilities of the company to deal with the anticipated environment;

(c) Formulation of strategic decisions which would maximize company strength or overcome company weaknesses.

The consultants then discussed for two days with company officials the first major step to be taken. Certain company officials were made responsible for preparing a report on the future "world" the company would face. During the ensuing two weeks, the consultants were available to answer questions, give advice, and demonstrate "how to do it". For each of the other major steps in the process, the consultants would first advise "how to do it", then the executive would undertake the assignment, using the consultants as helpers.

Working in teams is very important. If only one or two local managers learn the techniques from consultants, they may later encounter resistance

from other executives in the company, because of lack of understanding, lack of confidence in the particular local manager, or simply jealousy of the local manager who had worked with the consultant. But if the training is done in teams, the team members serve to assist and reinforce one another and help to instruct others in the new approach.

The method outlined above achieves some immediate improvement in management and leaves a trained team of company personnel. With some other methods that do not stress training, it is the consultant who becomes better trained and leaves the company executives incapable of implementing the plan agreed upon. The most effective and lasting results are attained if management consultants put their efforts into developing both the managers and the companies. Expert input by the consultants, combined with problem solution by the company managers themselves, brings superior results in companies in developing countries or in underdeveloped companies in the more advanced countries.

On occasion, a company problem may be used as a laboratory experiment for a class of graduate students or a seminar. The ideas and suggestions of students may help company executives to increase the company's profits. A large company in a neighbouring state recently used graduate students in a second-year course on business policy at the University of Washington as junior consultants in one of its major divisions. The company, the students and the school all benefit from this type of joint venture, and it is not uncommon for a student involved in such a project to be employed by the company after graduation.

In addition to working on consulting assignments directed to the solution of a specific problem, faculty members may undertake consulting or advisory roles of a continuing nature with a company or with a professional organization. In such a case, the consultant is usually on a monthly retainer. Occasionally, faculty members serve on company boards of directors. When properly planned, assignments of this nature provide linkages with the practice of management that are essential to the development and stimulation of professional schools of business and management.

Other methods of maintaining liaison with universities

Apart from the collaborative teaching and training methods discussed above, several other forms of liaison between professional schools of management and business are useful in the development of management consultancy through instruction and research and also through direct faculty consulting.

An important form of liaison is the establishment of an advisory board or a visiting committee. The Advisory Board to the Graduate School of Business Administration at the University of Washington consists of 14 board chairmen and presidents of major companies in aerospace, forest products, utilities, hotel management, retail merchandising, flour milling, banking, manufacturing, insurance and ocean transportation. The Advisory

Committee to the Stanford Graduate School of Business includes a senior partner of a large management consulting firm. Advisory boards can provide counsel on programmes and plans and serve as a critical link with the business sector.

Some business schools have been experimenting with executive-in-residence programmes in which executives observe and participate in school and class activities. The experience at the University of Washington has been quite successful. Typically, the executive is involved for an academic quarter on a part-time basis, possibly from one to three days a week. In this way the business executive gains an understanding of the school's objectives and programme and gains perspective for recruiting graduates with discrimination or for selecting faculty members who may be useful as consultants.

Another effective form of liaison is the sharing of responsibility for formulating, administrating and instructing in an executive development programme. In connexion with the Pacific Coast Banking School referred to above, the board of directors, consisting primarily of bankers, is responsible for major policy decisions, while the administrative committee includes six bankers as officers, two administrative staff personnel and four professors. One of the professors serves as the educational administrator and as a member of the board of directors and is responsible for curriculum development and for recruiting faculty. The faculty is drawn from banks, universities, professions and management consulting firms. Such shared responsibility between the business school and the banking industry has contributed significantly to the success of the school.

Other methods of liaison include the utilization of company executives and managers as guest lecturers and the summer employment of faculty members in business, either as consultants or as business executives with active responsibility. Business executives also attend short university courses and conferences on management and visit the campus to recruit graduates and become acquainted with potential faculty consultants.

Some limitations of universities as a source of consultants

The primary role of the university is, of course, to engage in instructional and research programmes, and the faculty's time for participating in practical management consultancy is therefore limited. Nevertheless, full-time assignments are possible during summer periods and also during periods when faculty members may be able to obtain leave. When faculty members have full academic schedules, they are generally available for consulting no more than one day a week. Adequate protective mechanisms must be established to ensure that university teaching duties are not neglected while at the same time industry management obtains the desired benefits from the university.

Some critics observe that the inclination of professors to be too theoretical may limit their effectiveness in operational problem solving.

On the other hand, there are occasions when sound theory is a useful contribution, especially when combined with the knowledge and skills of other professionals and executives in a team approach to problem solving.

Some advantages of universities as a source of consultants

A number of leading universities with well-established business schools have a substantial "inventory" of professional expertise. Many of their faculty members have had industry or government experience and have also served as consultants. In many cases more involvement might indeed contribute to the further development of professional expertise.

Faculty resource teams, experienced in teaching and research assignments, may have significant potential as consulting teams. For example, a team including architects, engineers, geographers, economists, political scientists, public health specialists and management specialists might collaborate on problems of urban and/or regional planning or problem solving. In similar fashion, consultants in fisheries, fruit, grain and livestock production might join with economists and management consultants to focus their efforts on increased food production. Obviously, such consultants could also be used to assist in the development of individual industries or companies.

The concept of an "inventory" of professional consulting talent could be extended beyond the single university. It would clearly be useful to develop a larger resource pool, to include a wide range of professionals and consultants. However, to be most effective on a continuing basis, team members should have sufficient contact and exposure with each other in problem-solving assignments over a period of time in order to minimize initial "start-up" costs. Resource pools of this nature have the further advantage of being available for effective follow-up after completion of a specific consulting appointment, since teams drawn from a wide variety of independent sources normally return to their respective locations and become involved on other assignments and are not readily available for consultation after a project has been completed.

THE NEED FOR BUSINESS SCHOOLS IN DEVELOPING COUNTRIES

The growth of management consultancy in the United States occurred more or less simultaneously with the development of professional schools of management and business, with the advantage that graduates of these schools have been able to work effectively with and evaluate and implement the recommendations of management consultants.

It is important that developing countries concern themselves with the development of business schools concurrently with the development of management consultancy. Foreign consultants and faculty members, although helpful in problem solving in the short term, cannot in the long

term be as effective as well-qualified domestic faculty and consultants. Hence, in the early stages it is important for the developing country to build its own schools of business management and its own consulting organizations. For this purpose, foreign faculty members and consultants should, if possible, extend their efforts beyond immediate consulting problems and make provision for training indigenous personnel who can subsequently carry on the work of the consultants and train others to do so.

During the past decade, significant progress has been made in developing a number of schools of management and business in Latin America. These efforts should be encouraged and expanded. The success achieved by these ventures will contribute significantly to the success to be realized in the future development of management consulting.

SUMMARY

Schools of management and business and other professional schools in universities possess a rich reservoir of talent and expertise that may be drawn on for the development of management consultancy. This is frequently overlooked by those who are aware only of the purely academic or instructional role of universities. At the same time, insufficient attention is given to the role of management consultants and business executives in instructing graduate students in professional schools.

For the short term, faculty members of foreign universities may be engaged as consultants in management and other professional fields, but every effort should be made to design the consulting projects so that local nationals are trained concurrently with the efforts to solve specific management problems. Faculty consultants are often well qualified to perform this important training role. Whenever possible, the local nationals who are being trained should participate actively with the foreign consultants in searching for improved methods, greater productivity and better organizational design.

VI. THE DEVELOPMENT OF PROFESSIONAL MANAGEMENT CONSULTANTS IN LATIN AMERICA*

The subject of this chapter is as complex as it is critical. It is complex because the training of management consultants depends on the need for consultants, which in turn is a function of the stage of economic development of an area. It is critical because the need for consultants will multiply. The associated problems will become greater rather than smaller unless there is some radical change in the trends of economic development.

What types of consulting and of consultants are relevant to the future of the Latin American region? What are the appropriate means for training such consultants? What role can institutions such as the Management Development Institute at Lausanne (IMEDE) play in this regard? Many aspects of consulting and management development are universal, and many aspects of the experience of IMEDE are relevant to these questions.

THE ECONOMIC ENVIRONMENT

Five points may be considered particularly important for understanding the processes of economic development in Latin America: the diversity of the countries of the region; the complexity of the educational problem, caused in part by the tendency to teach facts instead of improving analytical skills; the patterns of ownership; the influence of the large multinational enterprises; and the growing desire of the Governments of the region to increase their economic autonomy.

Diversity of the countries of the region

The countries of the region range in population from under 1 million to nearly 100 million. The gross domestic product (at 1960 prices) ranged in 1968 from under $100 to over $800 *per capita* and is growing at equally

* This chapter is based on a paper presented to the Santiago meeting by Luigi Dusmet de Smours, Director and Dean of the faculty of the Management Development Institute (Institut pour l'Etude des Méthodes de Direction de l'Enterprise – IMEDE) at Lausanne, Switzerland. The author acknowledged the assistance of Robert C .Berman, Research Associate at IMEDE in 1970/71, and of several associates in the teaching and management consulting profession.

variable rates.[1][1] In the major countries the numbers of economically active inhabitants in agriculture vary from 20 to 60 per cent.[2] The style of life varies greatly within the region, as does the form of government. It must therefore be acknowledged that many generalizations made about the region are unlikely to apply to each country.

Orientation of the educational system

In general, the traditional educational system has not helped to produce managers and business administrators. School education has been concentrated, for the most part, at the primary level, and a relatively small number of students have moved up to the university level, where the emphasis has been traditionally on the humanities, arts and law. The major emphasis in teaching has been on lectures and the teaching of facts to the neglect of analysis and interpretation.

To be sure, the educational system has been changing. In the opinion of Robert Rehder of the University of North Carolina, "The explosive evolution of management education, with hundreds of new programs developing in every conceivable form and institution is most dramatic evidence of this reorientation".[3]

Patterns of ownership

Despite the publicity about multinational corporations in Latin America, most commercial and industrial enterprises are locally owned, ranging from the one-man retail shop to industrial combines rivalling the size and resources of large multinational corporations.

There is a preponderance of family ownership, locally owned companies being handed down from one generation to the next. It is encouraging, however, that within these families there is an increasing desire to give the younger family members more formal management training to meet the business challenges of the future.

As noted by Stanley M. Davis of Harvard University, there is potential damage to indigenous business from the uncertain political climate.[4] Businessmen tend to believe, justifiably or not, that the private enterprise system in the region is struggling for survival. As a result, Professor Davis writes:

> "Survival replaces profit making as the predominant orientation.
> "The focus of competition shifts from profits to power, and economic organizations become highly politicized.
> "The time horizon of the manager is determined by changes in the political system more than by the economic conditions of the market or of his enterprise.

[1] Numbers in square brackets relate to references given at the end of this chapter.

> "Internal operations are believed to be less relevant to achieving organizational goals than is influence in the surrounding environment. "The board of directors of an enterprise plays a very powerful role, whereas senior executives are of little importance. Connections, not competence, determines performance."

To the extent that this analysis is valid, it raises basic questions about the role of management consultancy in assisting economic development in Latin America.

The influence of large multinational companies

The influence of large multinational companies is particularly important, as it affects the use and promotion of modern management techniques. The phenomenon of the multinational company is not confined to Latin America; only 18 per cent of United States investment abroad, 10 per cent of British investment and about 15 per cent of that of the Federal Republic of Germany is in Latin America.[5] But these percentages become more significant when translated into the total foreign share of industry in any one Latin American country.

Whatever arguments there may be about the political importance of the foreign companies, their economic presence has clearly furthered the spread of advanced management techniques in the region.

The desire of Governments to increase economic autonomy

There is apparently a growing desire of Governments throughout Latin America to achieve greater economic "self-management". Foreign business is being required to use local resources, to train local staff and generally to contribute more to the development of the local population. This move towards greater national economic involvement has led in many cases to expropriation of foreign assets. As a result, foreign managers are becoming more involved in the local business environment, while local managers, and in many cases government employees, find that they need more sophisticated administrative systems at their disposal to cope with the increased responsibilities so afforded them.

Future changes and problems

To what extent will these factors affect development in the next decade? Will they become increasingly important? Or will other factors replace them?

Forecasts about life at the end of the twentieth century are not consistent, but most forecasters predict increasing rates of population growth in Latin America, and it follows that major increases in gross national product (GNP) will be needed if the gap between this area and the advanced

industrial countries is to be narrowed. While they attempt to accelerate the growth of their GNP, Latin American countries will be confronted with an increasing rate of technological change and—arising in part from technological change—multinational corporations will be increasingly important in the world economy.

Kenneth Boulding, in *The Meaning of the Twentieth Century*, expresses doubt whether societies of the future can afford not to develop. He holds that the question is not whether economic development is a good thing, but rather how long it will take for the developing countries to acquire the attributes needed for development. He warns: "A mere desire for development is not the same as an effective will in the hands of those who have the power."[6]

Defining economic development as the condition in which the combination of new investment and its productivity are greater than the diluting effect of population growth, Robert Heilbroner is encouraged by the prospects for the developing countries:

> "For many nations an increase in their present rate of capital formation of 50 to 100 per cent—a difficult but by no means unthinkable goal—should bring them close to, or beyond, the point of cumulative growth . . . Indeed, economists at the United Nations calculate that there are perhaps twenty countries where a great ten-year effort could bring economic development to the threshold of a self-sustaining climb."[7, pp. 197—198]

One Latin American executive indicates the importance of management in achieving this goal:

> "Perhaps it is time to alter our concept of underdevelopment and think in terms of management. This would focus our attention on helping mismanaged areas to improve their organizations and knowledge. No amount of capital investment will succeed in furthering human progress if such wealth producing resources are mishandled or undermined through lack of fundamental concepts." [8, p. 416]

Harold Koontz of the University of California at Los Angeles states:

> ". . . The goal and *raison d'être* of managing is to make it possible for people operating in groups to co-operate most effectively and gain the most in terms of goals sought with resources available. In other words, resources—whether human or material—will almost surely be wasted without effective management." [8, p. 417]

The problems facing developing countries can be summarized in terms of three related needs: the need for industrial growth; the need to determine for each country the appropriate mix of growth agents; and the need to direct and manage this growth. Problems of such complexity require at the very least a multidimensional approach. As Heilbroner suggests:

"Economic development is nothing less than the modernization of an entire society. It means a change in the whole tenor of life, in the expectations and motivations, the environment of daily existence itself." [7, p. 199]

THE ROLE OF MANAGEMENT CONSULTANTS

Clearly, management consultancy has a role to play as one of many growth agents in helping those who must direct and manage the economic development of Latin America. As a rule, management consultants are used because of:

(a) Their specialized skills and experience;

(b) Their flexibility—they can be called in to solve a particular problem at a particular time;

(c) Their independence—they are impartial in their investigations and proposals and they can often bridge the communications gap between different levels in an organization.

If there is a special characteristic of the Latin American situation, it is that the great diversity of economic organizations in the region in terms of structure and ownership, size and sophistication will be reflected in the nature of the projects in which consultants have been and will be involved. From basic cost systems to complex computer simulations, from multinational giants to local co-operatives, consultants have a role to play in speeding the process of economic development.

The diversity of projects also requires a wide range of types of consultants. There is need for internal company consultants, outside consultants for industry and government and consulting groups provided by governmental and international agencies themselves. While their training and roles are all somewhat different, their tasks are similar in two especially important respects.

First, the task of the consultant is not confined to problem solving, planning or economic analysis. Above all, the consultant is an educator, a teacher of management in the formal sense, through seminars and courses and through his daily contact with the personnel of the organizations which he has been called in to advise. The educational function is a crucial part of his work, especially in areas where there is a need for management development. It would be a poor consultant who would analyse the situation and propose answers to problems without leaving behind him an appreciation of the tools of analysis and explanation of the rationale behind his proposals. Furthermore, he would have wasted the opportunity to train those who are supposed to manage the economy in the future.

Secondly, the consultant must be able to plan and think ahead—5, 10 or 20 years into the future—and to be aware of the world environment and of developments beyond his immediate focus. In a world where change occurs at an ever-increasing rate, it is likely that today's answers will not fit

tomorrow's situations. This could be said to be particularly true of developing countries that are attempting to speed up their growth process.

Consultants must have this broader, long-range or strategic concept, and this is perhaps the greatest change from the past and possibly the greatest need for the future. There are those who say that strategic analysis is a luxury, a privilege of the rich and the strong, but not for those with more pressing immediate problems. This is fallacious, for it is precisely the developing countries that have crucial immediate problems and must consider the future if they are to develop above a crisis-to-crisis existence. The concept of long-term strategy is as valid for the developing countries as it is for those that are more advanced, as valid for small local organizations as for vast multinational enterprises and as valid for centrally planned economies as for market economies. Mere day-to-day struggle for survival will not guarantee survival beyond the next crisis.

To fulfil their role in Latin America, consultants will have to have a variety of abilities. They must, of course, be competent in their own technical fields. They must understand the economic, social, cultural and political environments of the countries in which they operate. They must be able to work and communicate with many different kinds of people. More than this, however, they must be oriented to the future in their approach to consulting; they must be oriented to the long-run objective and not just to the immediate problem. They must be able to look outward rather than inward in undertaking their assignments. Finally, they must be oriented to the task rather than to personalities.

In a comprehensive survey of research on the universality and transferability of management, Harold Koontz of the University of California at Los Angeles concluded that there is "persuasive evidence that the fundamentals of managing are universal" [8, p. 428]. This appears to be true also of management consulting. In both the United States of America and Europe there are as many types of consultants as Latin America could conceivably use, working with widely diverse companies and organizations. The needs for technical skill, operating flexibility and independence are the same wherever the consultant is engaged, and everywhere it is necessary to stress strategic analysis.

Some will argue that while the fundamentals may be universal, the practice of management varies according to the national environment. As discussed above, it is true that the consultant must understand the environment in which he is working, but to understand a particular environment does not imply accepting without question whatever one finds in it. The conception that the Latin American temperament gravitates towards centralized authority, for example, does not mean that to succeed in Latin America the making of all business decisions must be centralized. The management consultant plays an important role in trying to blend successful indigenous factors with successful foreign concepts. He must weave universal managerial concepts into the fabric of the non-managerial elements peculiar to each culture.

THE TRAINING OF CONSULTANTS

For most occupations, training provides both theoretical knowledge and practical experience; one without the other cannot lead to optimal job performance. Management consulting is no exception. A young consultant, just graduated from university, will be able to use what he has learned about engineering or economics, but he will still have to learn about consulting, how to delve into problems, draft proposals, communicate with those with whom he is working. An older consultant, with years of practical experience but with little theoretical foundation, will not be able to operate as effectively or have a broad understanding of problems and solutions if he lacks the theoretical background.

The consultant's training must be designed to give him appropriate management techniques, including not only the specific tools of accounting or engineering or planning but also an understanding of how best to operate in any managerial or administrative situation. These techniques are obtainable either from academic institutions or from the private companies and public bodies that use them.

The quality of the training is far more important than where it is given. As an example, the Management Development Institute at Lausanne would not have been as successful as it has been—indeed, it might not have been started—had it aimed at attracting only Swiss nationals as students.

Business schools in Latin America will play a vital role in advancing management development. However, Latin Americans should also be trained in other parts of the world, to bring a broad international view to management consultancy in this region. Ideally, training within the region will eventually attract students from outside the region.

Training in the graduate business school or management development institute has four major objectives:

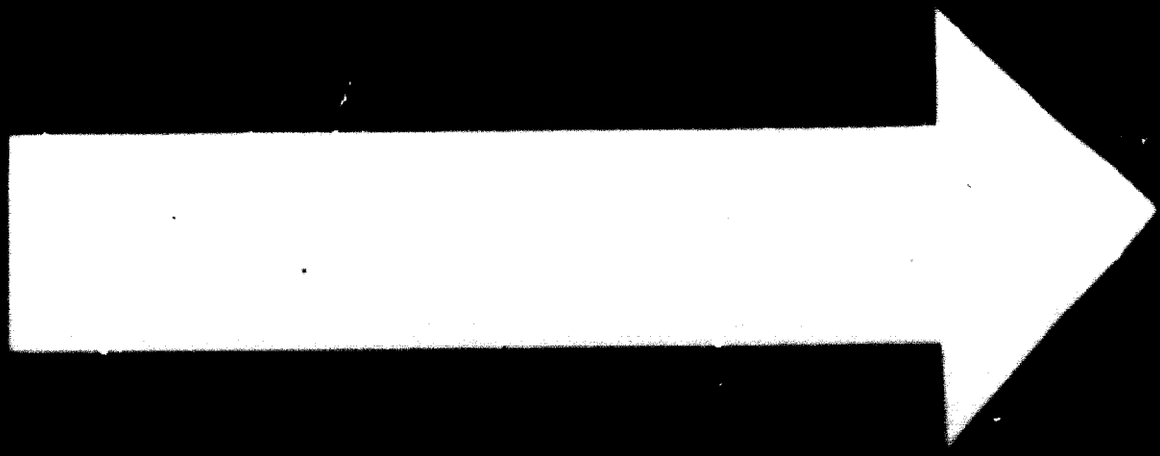
(a) It provides formal training in the use of management skills that enable the manager to carry out his basic functions of "planning, organizing, staffing, directing and controlling"; [9]

(b) It sets the balance between theory and practice that the student will need in a real-life situation and fosters an ability to relate actual situations to their conceptual framework;

(c) It broadens the student's outlook, exposing him to a wide variety of business situations, training him how to approach problem solving and decision making. Such training and practice should make the student more confident, more likely to take "reasoned risks", and thereby become more forward-looking and oriented to planning for the long term;

(d) It develops the ability to view an enterprise as a whole rather than as a collection of distinct departments.

In general, the extent to which a business school succeeds in these aims depends on the quality of the institution—the knowledge of its faculty, its research capability and its devotion to teaching, as well as on the quality



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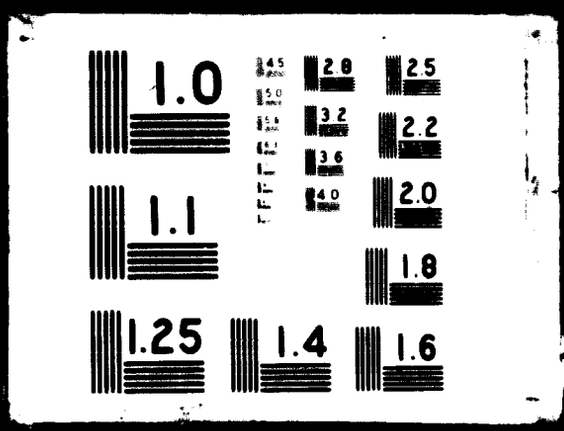

and appropriateness of its programme of instruction. However, no school, and particularly no business school, can prosper in a vacuum; it must be accepted by and supported by its environment. There are three major components of this environment: the academic world; the business sector; and what may be called the national environment, which includes all relevant aspects of governmental interest and control. The business school will not achieve optimal results unless it functions in harmony with these three components.

THE MANAGEMENT DEVELOPMENT INSTITUTE (IMEDE)

The role of the business school may be illustrated by referring to the experience of IMEDE. Established in 1957 as a foundation of the multinational Nestlé Alimentana company in co-operation with and under the patronage of the University of Lausanne, IMEDE has the following basic objectives:

(a) To broaden the outlook and business understanding of men and women whose previous experience has been confined to specialized functional areas;

(b) To condition them to make informed decisions on rational grounds;

(c) To heighten their sensitivity to the human and organizational problems of large international enterprises with roots in several different cultures;

(d) To improve their communication skills;

(e) To inculcate analytical approaches to problems and systematic planning habits;

(f) To provide knowledge of modern tools and techniques useful in the management of international companies as well as of domestic enterprises.

IMEDE is primarily a school of management and administration. It tries to provide its students with the techniques needed to administer and the foresight needed to manage, skills that are necessary and appropriate to all enterprises, whether manufacturing or service industries or public-service or governmental agencies. The profit orientation of private enterprise differs from the budget orientation of a governmental agency, but both need management and administration.

Two programmes are offered by IMEDE each year:

(a) A programme for executive development, which provides 19 weeks of intensive professional training for managers with substantial work experience. (The average age of the participants is around 35.)

(b) A seminar for senior executives, a three-week programme for individuals who are about to enter or have already achieved the highest levels of management.

These general courses are supplemented by a number of shorter seminars on particular areas of management. Recently, these seminars have covered the following subjects:

Computer skills for management
Long-range planning
Marketing management
Management control systems
Capital budgeting
Growth through acquisitions

Up to the present, IMEDE has catered to managers who already have significant work experience. Now it is planning to extend its courses to include a major programme for young graduates with more limited experience. The courses for experienced managers will continue at the same time.

There is some question as to the type of training that management consultants should have at various stages in their careers. Peter Drucker writes in his article "The consultant of the seventies":

> "Consulting is altogether a peculiar discipline. It does not start with the generalist and then move into specialities, as medicine does. It is much closer to law, where one starts with the particular, the speciality, and moves then towards an understanding of the universe." [10, p. 28]

Following this concept, consultants should have specialized undergraduate education, followed by on-the-job experience, then by training later in their careers.

It is possible to disagree with Drucker's concept of stages of development of the consultant, especially as regards Latin America. The fledgling Latin American consultant will need as much generalized training as he can get, and as soon as possible. If he is a young, recent university graduate, he should be given the opportunity to take post-graduate training at the master's level. If he is an older man with practical experience, a programme of the IMEDE type would be ideal. Whichever programme is offered, however, its stress should be on the development of generalists rather than on the production of more specialists. The goal should be to train a corps of consultants who understand the intimate relationship of the parts that make up an economic entity.

Internationalism

A key feature of IMEDE is that it is an international school, believing in the transferability of management skills among different countries. The students come from all areas and almost all countries in the world, sponsored by their employers — industrial corporations, Governments and management consultants.

Naturally, IMEDE tries to adapt its programme to the special circumstances of different cultural and business environments and to the particular needs of students and enterprises in Europe, which is its major base, but it cannot be all things to all people. There are sufficient common problems and common approaches to management throughout the world to permit any student of management to benefit from the IMEDE programme.

When IMEDE was established, one of its first tasks was to widen the scope of the teaching material, most of which originated in the United States. Much time, effort and money have been spent on research to develop more internationally based material. Other schools in other parts of the world have also been doing this, so that a sizable body of material now exists upon which any school can draw. IMEDE is also internationalizing its faculty, not only because the use of material from the United States by professors from this country is inappropriate to an international institute based in Europe, but because it is convinced that internationalization will provide greater depth to the courses and will result in an improved learning experience for the students. Fortunately, first-rate teachers of different nationalities are becoming increasingly available. IMEDE is encouraged by the growing movement of faculty members and the increase of course material flowing from Europe and Latin America into the United States. There is no longer a one-way flow as in the past.

Methods of instruction

IMEDE makes major use of the case method of instruction. An actual administrative or managerial situation is presented as a case, with sufficient background data to allow students, through their own analysis and through discussion in small groups and ultimately with the whole class, to reach conclusions as to the best course of action in the situation. The case method, also used extensively by business schools in Latin America and throughout the world, is designed to stimulate an analytical approach to decision making.

It has been found that this approach fits a variety of subject areas. At IMEDE, all classes (including general management, marketing, finance, production, quantitative methods, management control, organizational behaviour and international business) use appropriate case studies to a greater or lesser extent. The variety of subjects taught and the variety of cases considered broaden the horizons of the students, exposing them to the latest management techniques used by business and Governments internationally.

There is some debate as to the applicability of the case method to training consultants in general and some question of its suitability to the Latin American environment in particular. In the opinion of Peter Drucker:

> "Business school cases, in fact, can be terribly misleading. They present conceptual problems, and there are no such things in consulting. The actual experience always combines a conceptual and a human problem." [10, p. 29]

Other authors have expressed concern that the cultural background of Latin American managers makes it difficult for them to adopt the abstract viewpoint required in case study, that is, they find it difficult to project themselves into the roles of the case characters. [11, 12] A third criticism, voiced specifically by Reginald Revans, a consultant to the Fondation Université-Industrie in Brussels, is that the case method denies the student the opportunity to make personal observations of the case situation, because it presents him with a situation already documented by an experienced case writer.

All three criticisms are valid, for the effectiveness of the case method depends on how it is used. Case discussions that are not directed towards uncovering human problems along with the concepts tend, as Drucker suggests, to be misleading. If Latin Americans fail to relate to the case method, it may be because they have been given cases overly oriented to foreign business situations. The experience of IMEDE is that the best Latin American students perform, both as students at IMEDE and afterwards as executives, as well as any other group. Not only does the case method require major student participation, but it also places special demands on its teachers. To be most useful, the cases must be well chosen and well taught to good students.

Revans's criticism — that the case method denies the student the opportunity to make personal observations of the case — is probably the most valid of the three criticisms, but it is also the easiest to rectify. Through relevant field trips and research projects, a business school can provide its students with the opportunity to observe and analyse actual situations without the constraints of the case method.

The case method is not perfect, but it combines practice and theory better than any other system has been able to do, while at the same time concentrating a great deal of learning experience into a relatively short period. These advantages are particularly important in training consultants for Latin America.

The IMEDE concept and the development of management consultants for Latin America

In his study referred to earlier, Harold Koontz divides the activities of an enterprise into managerial practices and non-managerial practices. Managerial practices include approaches, techniques, objectives, policies and programmes, while non-managerial activities comprise the more functional areas of marketing, engineering, production and finance. [8, p. 427]

One should not minimize the "non-managerial" functions or the role of the consultant in developing these functions in Latin America. However, the director of IMEDE believes that the "managerial" functions are most relevant to economic development, and these should be the major involvement of management consultants in the future. The development of these managerial practices is seen as the primary international role of IMEDE. But education, like knowledge itself, is not static, nor is it confined to the more formalized functions of the business school. The training of the consultant must be seen as a continuous process, a blending of formal education and on-the-job experience acquired throughout his working life. For this reason IMEDE, which began as a school for middle management, has extended its programme to offer both senior executive training and seminars in specialized areas. To complete its range of courses, IMEDE is now planning a programme for younger graduates.

There is no doubt that consultants have a significant role to play in the economic development of Latin America. If economic survival is subject to political manipulation, the process of development will inevitably be retarded, and the role of the consultant will accordingly be diminished. Given the desire for economic growth, and a national environment that encourages it, there is every reason to believe that the practice of management, fostered by those who teach it and those who have learned to apply it, will prove a major factor in turning the desire for economic progress into reality.

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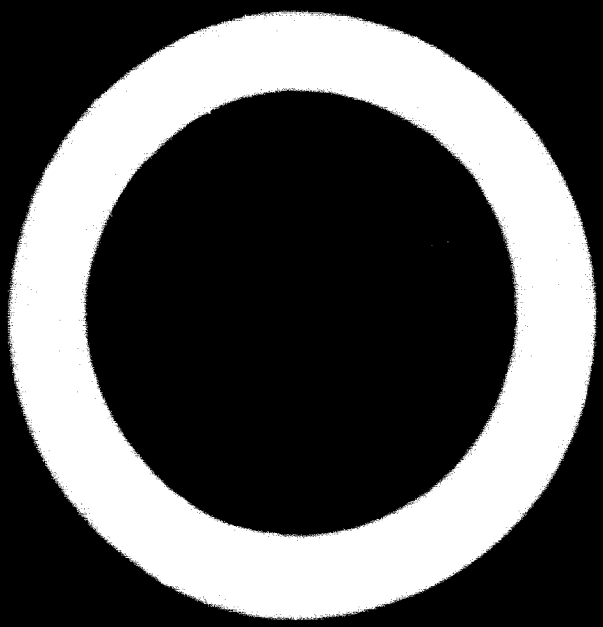
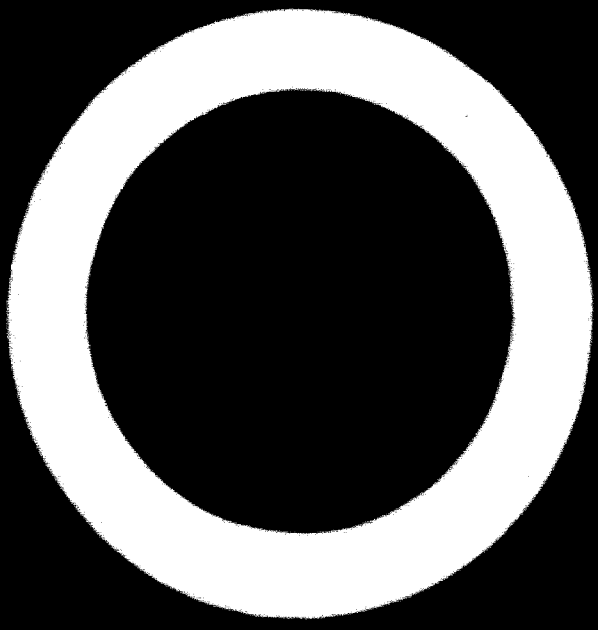


Part Three

BUILDING MANAGEMENT CONSULTING SERVICES IN DEVELOPING COUNTRIES



VII. PROBLEMS AND PERSPECTIVES OF BUILDING A MANAGEMENT CONSULTING PRACTICE IN DEVELOPING COUNTRIES*

Management consulting has two "image problems". First, there is the "Machiavelli image", which shows management consultants as shadowy men of intrigue, whose devious methods and approaches will sooner or later catch up with them. This image is reflected in the sign on the wall of a consultant's office:

> "Socrates was a man who went about counselling and advising people. They poisoned Socrates."

Secondly, there is the "big business image", which associates management consulting exclusively with large enterprises and with economically advanced countries like the United States of America. The term "management consulting" conjures up visions of stop-watches and efficiency experts, of organization men, executive head-hunters, and, perhaps most of all, boardroom struggles for power. Both images are false.

Most management consulting is professional in its approach and can provide highly versatile and competent resources on a contract or even a "stand-by" basis for all types of organization, carrying out its commissions by contributing independent, skilled and experienced problem solvers from a considerable range of disciplines.

Management consulting is not and never has been confined to the most economically advanced countries. In its role of assisting in the transfer of management technology, management consulting has always been a mobile, international activity. Thus:

(a) A number of the British and European colonies received extensive management consulting assistance during most of the nineteenth century;

(b) A comprehensive "management consulting" programme to absorb foreign industrial techniques was initiated by the Japanese Ministry of Industry about 1870. In 1879, half of the Ministry's budget was spent on foreign experts on railways, workshops and mining. British experts

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* This chapter is based on a paper presented to the Santiago meeting by Brian W. Scott, Director of Planning, W. D. Scott and Co., Pty. Ltd., an international management consulting firm in North Sydney, Australia.

were engaged in the textile mills. Experts on cement, fertilizer, paper and glass manufacture were also employed to set up factories, train technicians and teach industrial techniques;

(c) Substantial consulting assistance was provided by United States firms in Europe after the First World War, and the United States European Recovery Program (Marshall plan) following the Second World War marked the beginning of international aid to consulting projects around the globe. Since that time, a wide variety of management consulting assignments have been undertaken on every continent for public- and private-sector clients, as well as for international aid agencies. In Latin America in the decade from 1960 to 1970, the Inter-American Development Bank reported that some 670 consulting firms co-operated with it.

This chapter examines some of the major administrative and policy issues involved in management consulting work in developing countries and is presented in three main parts:

(a) A brief examination of the prospective services and benefits the consulting firm can impart in a developing country;

(b) An assessment of some of the problems and issues the consulting firm must consider as it expands into developing countries;

(c) Some comments on the conditions and attitudes required if international consulting work is to be successful.

MANAGEMENT CONSULTING SERVICES AND BENEFITS TO DEVELOPING COUNTRIES

A broadly based management consulting firm is usually able to provide services in these areas:

(a) Productivity studies. The aim of these studies is to improve methods and systems. Such studies are often vital, even in economies where there is substantial unemployment and cheap labour. They can help to establish basic economic viability and to provide a sound basis for expansion to larger-scale operations;

(b) Organization and policy studies. Large firms in developing countries often have great influence on the economy, both directly (through trading or policy decisions) and indirectly (through precedent and pace setting). The management consultant can assist by making a review of such an organization and recommending a plan to streamline and prepare the firm for further growth and development;

(c) Feasibility studies. Some consulting firms have the necessary range of skills and disciplines to conduct full feasibility studies. These may range from the evaluation of basic utility needs in the public sector, e.g. highways or water supply, to new investment studies, e.g. studies of the manufacture of capital or consumer goods.

(d) Industrial development studies. Some management consulting firms will have the expertise required to undertake economic and sectoral studies. These are particularly important in such areas as determining national and regional priorities and action, establishing industrial estates or free trade zones, and seeking to attract basic investment in industries like steel or petrochemicals.

In undertaking studies in these four areas the consulting firm can provide the following types of expertise:

(a) Analytical approach. The management consulting firm can frequently bring advanced methods of analysis to such studies. It has experience in diagnosis and in crystallizing and stating a problem succinctly. It also has experience in drawing together a range of disciplines to analyse, and then to help execute, a particular subject. The multidiscipline approach has become an integral part of the work carried out by many consultants today;

(b) Access to international knowledge. The management consulting firm can also provide ready access to international knowledge, information and experience. For example, a developing country seeking to exploit its forest resources must seek data on world supply and demand. The market trends must be assessed, and the investment incentives to be offered by the Government must be determined. Information on the latest transportation methods from the forest to the mill, and from the mill to the market, is also vital;

(c) Application of advanced technology. It should be noted particularly that even the advanced technology of Western countries can be relevant to decision making in developing countries. New technologies can sometimes provide an opportunity to "leap-frog", or by-pass, historical stages of industrial development;

(d) Mobilization of resources. The management consulting firm can mobilize resources from all over the world to meet the diverse and challenging requirements of a project in a developing country. Consultants from Australia and New Zealand work with associates from the United States and Canada and various European countries, as well as from Japan and other countries in Asia. This trend will inevitably continue;

(e) Training of local counterparts and consultants. The management consulting firm can be a valuable teaching resource. It can train counterpart staff in techniques and understanding, involve them in the consulting study and work closely with local consulting groups. A well-trained local managerial and consulting staff will be of greater and more lasting value in the long run than the specific system installed.

There are distinctive contributions a management consulting firm can make in developing countries and obvious attractions to consulting in these areas—an opportunity to work on big, exciting and challenging projects. The individual consultants frequently develop a deep sense of mission

and purpose. The firm can expand and develop on the basis of its large and long-running assignments. And, of course, some prestige accrues to the firm through its international activities. Yet there are many practical difficulties.

SOME PROBLEMS FACED BY MANAGEMENT CONSULTANTS IN DEVELOPING COUNTRIES

The management consulting firm finds some sharp differences in operation when it seeks to "export" its skills and experience to developing countries. Some important considerations are noted below.

Quality control

Attention to the quality of work in an assignment is, of course, a fundamental requirement anywhere, but there are special concerns when the assignment is being conducted away from the home office in a distant developing country. First, the individual (or team) chosen for an assignment must be thoroughly experienced, as he will not be able to depend on supervisors or senior partners for immediate advice, and the client frequently looks to the consultant for informal leadership and advice on matters not strictly within the consulting terms of reference.

Staffing for projects in developing countries is not easy. Experienced consultants are needed, but few will be available for long-term transfer, often for family reasons. The personality of the consultant chosen is as important as his professional capacity. The man who thinks of a developing country as a hardship post is not the man to send, as the client will recognize his frustration and discontent, and the assignment may be jeopardized.

A second major consideration in maintaining good quality control is the need for regular technical supervision, generally through frequent visits to the project office, review of progress reports etc. The field consultant or the field team needs regular contact with the organization at large. Visits by partners or senior consultants, information memoranda from the head office, items of possible interest and value sent from the company library are all important supporting links.

A brief, informal weekly status report can be valuable to the home office to keep it informed of progress and to help it sense difficulties. An occasional telephone call to the field can repay its cost many times, not only to get a first-hand, up-to-date voice report on the state of the project, but also to reassure the field consultants of the firm's continuing interest and support.

It would be incorrect, and even dangerous, to assume that selection and supervision of staff can be more relaxed in a developing country because the level of management sophistication is lower. Quality of consulting leadership may be even more important in carrying out assignments in the field than in the home office.

Availability and interpretation of data

Most assignments involve collection and analysis of local data, ranging from economic statistics to industrial operating performance data. The field consultant must be astute, persistent and selective in gathering and appraising this data. He may need to check many sources, since information systems and retrieval methods are typically not well established in developing countries. If information is taken at face value, extraordinary conclusions are reached, as in the case of the consultant who was able to show from official figures in an Asian country that the average life of an automobile was 199 years.

In interpreting data, the consultant must guard against preconceived notions based on Western experience. For example, engineers from industrially advanced countries often have insufficient knowledge about equipment performance under conditions in less advanced countries. It cannot be assumed that the maintenance requirements of a machine in use in the developing country will be comparable with those in the producing country.

Relationships with the client

In most cases, the client in a developing country has little experience of working with a consultant. He is sometimes awed by the advent of the international experts and may tend to wait for them to roll up their sleeves and produce their magical results. Given an early breakthrough in achievement, the consultant may be regarded as a "medicine-man" who can advise on all matters and will produce a new miracle every other week.

The consultant should take the initiative in formalizing arrangements for communication throughout the assignment. A regular steering committee, to review and report on progress, can perform a valuable function. In this way the joint responsibility and involvement in the project is regularly highlighted and the way is prepared for the client to carry forward the work, or the systems produced, after the consulting assignment is completed.

Follow-up after assignments

At the conclusion of the consulting assignment, there is a danger that the momentum of progress will fail and that the new systems and procedures will lapse, especially if steering committee meetings are discontinued and the counterpart staff resume other work that takes most of their time.

During the assignment the consultant should advise the client and help to prepare a continuing programme of activity for the period after the consulting project is completed. If practical, the consultant should retain contact with the client after the assignment. Ideally, this should include periodic follow-up visits and review sessions. In some cases monthly reviews of systems reports can be made in the home office of the consultants, at least for the 6 to 12 months after completion of the field assignment.

Local cultural and social attitudes

Early acceptance of the consultant (or consulting team) professionally depends very much on the rapport he establishes with the client staff. In developing countries the overseas consultant needs to be especially sensitive to what is the appropriate role for him to play in such matters as leadership, guidance and training.

The consultant should be sensitive to intonations of words and expressions used by the local people. In some cultures, for example, there is a strong reluctance to say "no". In such a case, the consultant should recognize that "yes" may mean "I am being polite", rather than "I agree with you". "Yes" may or may not mean: "I understand what you mean".

The consultant selected for an assignment in a developing country, and his family as well, should be keenly interested in the country and its people. "Country information files" in the consulting firm's library are helpful as orientation for this purpose. They may include general background material, tape recordings of local music, and informal, practical advice for wives—mostly prepared by wives of consultants previously assigned to the region.

Language

Management consulting has more than the usual language difficulties involved in the transfer of professional expertise to foreign countries. Characteristically, during a management consulting project new terms and concepts are introduced, and some radical new methods of administrative work are planned. In many countries, it is acceptable to consult in English, and this may be the only practical language for the Western consultant. This is frequently the situation in Asia, where many languages are spoken within a single country, and English is the one widely understood second language. Spanish in Latin America or French in many parts of Africa would be more appropriate.

Although it is usually better for the consultant to rely on his native language, and to use translators as necessary, the language difficulty does not end here. Management has developed as a practice mostly in the Western world, and major conceptual and semantic difficulties can arise during an assignment: for example, words like "policy" and "control" can prove very difficult to explain in some cultures.

The consultant has to be sensitive to problems of understanding and interpretation of ideas and methods. If he gains particular insights or finds that some examples prove particularly useful, he should document his observations in the company files for future reference.

Balance and objectivity in the consulting team

The mood of consultants in a field location remote from the home office will inevitably fluctuate. They may feel gloomy because of apparent lack of progress. Early in an assignment, it may seem that progress is slower than it should be and no one seems to hurry or worry.

Tensions and personality conflicts may develop within the team. There will be different perspectives at the professional level. The wives may not be congenial or the families may be unhappy or homesick. Children may not settle successfully at school. On the other hand, the consultants may find themselves in a position of power and influence, which is flattering, and there is a danger that the consultant may become arrogant or self-important.

VIII. THE ESTABLISHMENT OF INDIGENOUS CONSULTING SERVICES IN DEVELOPING COUNTRIE

The necessity for creating in the developing countries a more effective indigenous consulting capacity in all areas of management is acknowledged. As industry and commerce expand in these countries the need for localized management consultancy increases.

The expansion of local management consulting services is one of the most important inputs to ensure the continued economic growth of developing countries. Management consulting helps managers of various kinds of enterprises to solve managerial problems and maximize economic opportunities, thereby making a major contribution to any development plan.

The fundamental idea of developing indigenous management consultants has many inherent problems, but at the same time it affords many opportunities. The process of expanding management consulting activities is based on four assumptions:

(a) That both business and government authorities in most countries exhibit a strong interest in supporting the development of management consultancy;

(b) That business and government feel it necessary to continue to utilize international and foreign consultants on a complementary basis in establishing the profession of management consultancy;

(c) That few elements of business, government or other groups know how to make or take initiatives in this type of development or are interested in how to plan effectively for expanding and improving their own management consulting services;

(d) That the desire of business and government to develop indigenous consultancy requires support and encouragement by international organizations competent in this field.

The key problems in establishing consulting services in developing countries fall into three groups:

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* This chapter, based on a paper presented to the Santiago meeting by John C O'Melia, Jr., reflects in part the views expressed in the *Manual on the Use of Consultants in Developing Countries* (United Nations publication, Sales No. 72. II. B. 10).

(a) Assurance of the co-operation and support required for developing a management consulting system;

(b) The determination of guidelines for developing a modern management consulting system which provides a wide range of the services needed;

(c) The establishment of an effective and financially sound organization, consisting of experts who have the training and competence to help improve the managerial and economic performance of business and industry.

This chapter also discusses in a final section certain opportunities that surface as industry and business expand in developing countries.

CO-OPERATION OF BUSINESS ENTERPRISES

Unclear or faulty conceptions and lack of acceptance and understanding of the consultancy role are major obstacles to effective co-operation between the business community and consulting organizations. In some cases even the top management of business enterprises is not sufficiently informed about the role and function of management consultants.

The success of establishing a local consulting organization depends to a high degree on the understanding by local management of the differences in the respective roles of consultants and clients and the effective performance of these roles. Both management and the new consulting organizations must make every effort to establish a relationship of mutual confidence and co-operation.

It is important to prepare the groundwork before establishing an indigenous consulting organization. Understanding, general co-operation and communication will be better if local management is involved from inception in planning the new consulting organization.

Four categories of institutions are concerned with the development of indigenous consulting services:

International organizations
Government and para-government agencies
National and multinational businesses
Business schools and management centres

Co-operation may be horizontal (e.g. among businesses) and/or vertical (e.g. between government and businesses). Horizontal co-operation is easier to achieve because there are fewer barriers to communication and a better-established community of interests. Greater effort should be directed to the establishment of improved vertical co-operation.

The conditions absolutely necessary for co-operation include: the existence of real need; willingness on both sides; agreement on specific objectives; and anticipation of mutual advantage to be gained.

DEVELOPING MANAGEMENT CONSULTING SKILLS

A number of factors influence the development of management consulting skills. No one institution or training programme in a given country can meet all the training needs. Training in management consulting skills should therefore be provided within the general management development resources and should include both theoretical and practical training.

Universities can provide courses in basic essentials and organize special courses, refresher programmes and training seminars. In many cases, management and engineering institutes function best outside the universities, but this depends on the local situation. In some cases, advance programmes which provide for management games, internships in industry, case studies in practical problems etc. are important features of the training programme.

One of the best ways for a young graduate in engineering, management, economics or business administration to learn consulting or management *per se* is to be employed in industry in a managerial capacity. Good training may also be gained by young persons who work as interns for several years with a recognized management consulting firm under strong supervision and direction. Such internships are valuable in providing a nucleus of young professionals who can be placed either with local or foreign industries or with established consulting organizations.

A variety of training courses are organized by consulting firms, productivity centres and research institutes, which may offer basic refresher courses, and in some instances special training for more senior personnel.

Some of the best training for the consulting profession is on-the-job training in a consulting firm or organization. Most people agree that specific industry experience in a wide variety of situations is equally valuable. Such investment in the development of management consulting skills not only enables indigenous consultants to undertake some consulting services that now have to be imported, but has also the wider advantage of helping the local consulting profession to keep abreast of change and increasing professional skills.

ADAPTING SOLUTIONS TO MANAGEMENT PROBLEMS

The adaptation of solutions to management problems is very complicated. The biggest problem for consultants is not how to transfer information and skills between countries or between enterprises in the same industry, but how to make such transfers between cultures. The problem, therefore, is not so much the transmission of the know-how itself as it is the cross-cultural transfer between countries and within countries.

The manager who wishes to be effective in his environment is seeking information to help improve his skills. More attention should undoubtedly be focused on how he can, in his own environment, identify what it is

he needs; and how he can seek out and acquire what he needs from management consultants.

In this connexion it is important to note the cultural constraints or patterns each particular culture exerts on its industrialization. This observation leads also to the discernment of the particular characteristics of each culture as they relate to the managerial potentiality of the society. It will be noted that some management theories and techniques tend to be "culture bound" while others are less bound to, or constrained by, the characteristics of the culture. For example, there appears to be less cultural constraint in introducing quantitative techniques, such as accounting methods, operational research or management information systems, than in introducing techniques of personnel administration which derive from direct man-to-man relationships and are influenced by powerful traditional constraints of the culture and the social reaction to new management situations.

In diagnosing cross-cultural situations that arise in management consultancy, it is useful to determine the cultural differences of the clients and consultants, how far these characteristics are compatible or incompatible with the functional requirements of their respective roles, and which of the cultural values will affect the solution of managerial problems.

Management consultancy has to be concerned not only with methods of solving management problems but also with the nature of the solutions proposed. At the risk of repetition, it must again be noted that a better understanding of the real management problems goes far beyond the mere mechanical mastering of certain proposed techniques. It is clearly a waste of effort to export a set of techniques to a country in which the cultural conditions are not favourable to their implementation.

ESTABLISHING GUIDELINES FOR DEVELOPING INDIGENOUS MANAGEMENT CONSULTING SERVICES

To foster the development of a strong, indigenous consulting and advisory service, the first step is to determine the country's requirements in terms of management's needs for consulting assistance. Systematic guidelines should be established for developing indigenous management consulting services. This process should involve the agencies, organizations and enterprises concerned with economic advancement. All necessary steps should be taken to ensure the creation and promotion of modern and effective local consulting services. The following guidelines are proposed:

(a) What are the needs of management? What do the managers aim to accomplish? Some of the goals will be: to create new factories; to attain predetermined levels of profitability; to achieve certain percentages of market penetration; to establish new training centres; to develop social programmes;

(b) What are the purpose, scope and type of the desired management services? The services needed will differ from one country to another but

will usually cover a wide range of activities. It will not be possible to complete the specification of services needed until facts concerning the real needs and problems and their underlying causes have been gathered and studied. The situation in each country has to be thoroughly researched and analysed and an estimate made of the value and desirability of developing local consulting services;

(c) The competence of the local consulting profession has to be considered. Talented young men and women should be encouraged to become consulting specialists. The necessary training should be offered and opportunities afforded to practice under arrangements that are both professionally and economically satisfying. Direct experience in industry should be assured in order to increase the consultant's technical skills and prepare him to be an adviser;

(d) Will the proposed indigenous consulting organization be commercially and financially viable? When the specific consulting services have been designed, each should be evaluated with respect to cost and time; both specific and total time and cost should be calculated and the various services compared to permit the selection of those that are the most efficient and least costly;

(e) The consulting services should be continuously evaluated. Feedback from the clients should be a guide to changing and updating the services as necessary.

ORGANIZING EFFECTIVE LOCAL MANAGEMENT CONSULTANCY

How can indigenous management consulting services be established and strengthened, and who should have this responsibility? Some believe that there should be one central organization; others suggest several organizations working in parallel; still others feel that it is not necessary to create new institutions, but necessary only to provide co-ordination and allocate new tasks and responsibilities among institutions that already exist.

Perhaps the initial step is to form an operational committee, consisting of representatives from government, business enterprises (especially local and national companies—both large and small) and international organizations, to examine the organizational aspects and evaluate them in the light of a more detailed analysis linked to concrete action. The important problem is to set priorities and to determine whether the needs are short or long term. The objective should be to provide complementary—not competitive—services.

The organizational aspects of a consulting profession vary from country to country. Private practice, by individual consultants or by the staff of private firms, is one type of organization. Industry associations, research institutes, productivity centres, extension services are examples of other types.

The services offered by consultants in management can be organized in a wide range of activities, for example: studies of objectives, goals and policies, over-all business strategy, organization, cost reduction and profit improvement, and management development and compensation programmes. Some examples of consulting functions are summarized below.

Productivity studies. This function involves the development of procedures for the most efficient use of facilities, manpower and materials. It includes a plant-layout review to ensure optimum flow of materials and work; production planning procedures; and time-and-motion studies to ensure an efficient employment of the labour force. Inspection, standards, methods and schedules are established to reduce as far as possible the manufacture of products that do not conform to specifications and to prevent waste of raw materials. Safety measures are taken to diminish the number of accidents, and training methods are developed to improve workers' skills.

Physical distribution. Services related to the control, movement, and storage of materials in the total system include warehousing and materials handling, flow, storage, order picking, shipping, receiving, packaging, traffic and transportation studies, the design of the total physical distribution network, inventory control, order processing, the establishment of shipping documents and operating reports, and the determination and design of physical distribution of equipment.

Marketing. Marketing strategy and long-term planning, product-line planning, marketing controls and procedures, marketing organization, compensation of marketing personnel, distribution methods and costs, sales management and method, market research, investigations to participate in new markets (through agents, distributors, licensees or joint ventures), search for affiliates, and international business intelligence fall into this category.

Administrative and office organization. Office layout and organization, work simplification, workload and staffing requirements, systems and procedures, clerical costs controls, quality improvement, filing systems and equipment, correspondence and reports, and records management are the typical items that fall under this heading.

Finance. This function includes: financial planning, financial control, pricing, cost analysis, inventory analysis, cost accounting, cash flow analysis, investment analysis, profit-and-loss analysis, profitability analysis.

Operations research. This function includes optimizing the allocation and utilization of resources, the amount of expert knowledge and data required, the equipment needed, forms of analysis, such as: "critical path methods" (CPM), "programme evaluation and review techniques" (PERT), queuing theory, linear programming, simulation techniques, decision theory.

Electronic data processing. Computer feasibility studies, evaluating the effectiveness of existing systems, integration of data flow, equipment specification and selection, cost and quality control, organization and staffing

requirements, training of personnel, systems design, applications analysis, data organization, production programming, maintenance and security fall into this category.

MEETING NEW AND EMERGING MANAGEMENT NEEDS

One of the major roles of management consultants is to motivate and advise managers how to organize, manage and increase their effectiveness in modern economic enterprises. Management consultants can make important changes in the areas of knowledge, attitudes and skills, orienting their advice and counsel to the actual jobs confronting the managers in developing countries, who have assumed increasing burdens in recent years because of fast-changing managerial, operating and technical problems.

The management consultants can help to meet the new needs through:

Observation of the company or business enterprise in its particular environment

Selection of pertinent information needed to help managers make decisions

Introduction of new techniques for making decisions

Development of alternative solutions to problems

Advice on developing communications with personnel at all levels, and proposals for motivating personnel

INPUT FOR ECONOMIC DEVELOPMENT

The development of a strong, indigenous management consulting system is likely to stimulate the process of economic development itself. Input for economic development is provided through specially trained and experienced consultants who help managers to sponsor modern practices, enabling their enterprises to make optimum contributions to the economy.

Managerial problems are one of the toughest and most pressing obstacles to industrialization programmes in developing countries. Although a country may be able to import modern equipment and modern technology, poor management may cancel out these efforts.

In each developing country there is a relatively small number of leaders of economic activity. The sum total of the efforts of these leaders virtually controls the productivity and therefore the economic development of the country. The improvement in managerial skills among these leaders has, however, lagged far behind the over-all management development and education in the developing countries, so that the development of individual enterprises is slower than that of the basic economic growth planned for the country.

The consultant's activity is not confined to solving management problems in a purely theoretical, abstract or technical sense. He does these

things, of course, but the problems with which he deals primarily are action-oriented. His thinking must be directed towards improving managerial and economic performance and obtaining results for the client.

Management consultants have made distinct contributions to such central problems as the design of operation, the establishment of goals, organization of the industry, the upgrading of managerial skills, the management of employee relations, technical and other innovations, and keeping the organization abreast of the economic, social and political environment in which it functions. Management consulting services are vitally important in helping local personnel to acquire the technical knowledge, skill and tools they need to fulfil their critical roles in economic development programmes.

ASSISTANCE BY INTERNATIONAL AGENCIES IN THE ESTABLISHMENT OF LOCAL MANAGEMENT CONSULTING ACTIVITIES

There are many opportunities for assistance to the developing countries in strengthening the consulting profession and establishing consulting organizations. Information on techniques and organization may be privately exchanged by local and foreign consulting companies. The extent of co-operation varies with the individual case.

Research institutes in industrialized countries can help to establish local research institutes and supervise their operations in the beginning. Co-operative schemes can also be developed between affiliated international consulting organizations.

Bilateral assistance is available in the form of graduate fellowships, internships and specialized study arrangements to train individuals in management consulting services. An important means of providing multilateral assistance is the establishment and improvement of advisory services attached to industrial development banks and corporations, industrial research institutes, small-scale industry development centres etc. Such services have the advantage that they already enjoy the confidence of industrial managers. Multilateral aid and United Nations technical assistance programmes can also be provided to train local professionals and assist them in the organization of consulting activities. Developing countries should be encouraged to take advantage of these resources to develop their consulting services.

THE ROLE OF ESTABLISHED CONSULTING FIRMS IN DEVELOPED COUNTRIES

Generally speaking, there is no conflict between the growth of the local consulting profession and the permanent role played by international consultants. International or foreign consulting firms from industrial countries offer developing countries the benefits of advanced research

and technology. Many consulting and advisory agencies exist in the industrialized countries; but the supply of foreign consultants available is likely to be inadequate, and there are certain activities for which their services are inappropriate or too expensive. Thus, such services do not offer a total or permanent solution to the needs of the developing countries.

What role can established consulting firms in industrial countries play? First, they can play a critical role in the development of the local consulting organization by sharing know-how and experience. They can help the local consulting organization specialize in function, technique or clientele. Some can offer formal short courses and training seminars for the development of local consultants. Others can offer internships for practical training.

Secondly, they can complement the types of services offered by the local organization. For example, some foreign firms are prepared to set up and initially operate "turn-key" projects; others can provide elaborate industrial research facilities in support of their on-site advisory and analytical activities; still others can exercise technical competence to analyse pre-set problems or help to determine the problems and their parameters.

Competent foreign consultants are equipped to handle complex problems and to serve large specialized industries, trusts and ministries, since they can readily assemble teams of experts who have acquired wide experience in a number of countries and have a thorough knowledge of world markets and up-to-date technology.

KNOWLEDGE OF LOCAL CONDITIONS

Much emphasis is now placed on the extent to which the consultant should be familiar with the culture, traditions, practices and language of the area in which he is going to work. The requirements for these qualifications and for general awareness and sensitivity to local considerations will naturally vary with the assignment.

International consultants are highly qualified technical specialists. In fact, they are often over-qualified and tend to interpret management problems in developing countries on the basis of their own technical orientation, with the result that they tend to substitute technological depth for social, political and environmental breadth.

Local consultants can often cope more effectively with local managers who may be steeped in tradition, and therefore conservative in outlook, because they are more familiar with their views regarding faith, homeland, the family, the trade unions etc. and can thus help to overcome the cultural constraints through an intimate knowledge of local conditions.

IX. THE EXPERIENCE OF JAPAN IN DEVELOPING MODERN MANAGEMENT CONSULTING SERVICES*

According to a survey made by the Japanese Government (Ministry of International Trade and Industry) in 1970, there were 500 management consulting firms in Japan in 1970 with an annual turnover equivalent to $US 110 million. Almost three fifths of the firms were established within the past 10 years; in the past 8 years the number of consultants has increased by 5,000. Today, the profession has bright prospects; consultants may expect a relatively high income and high social status. Many trades adopt the title of "consultant"—for private investment, marriage counselling, housekeeping, infant rearing, beauty treatment and many other activities.

A Research Institute in International Management has been established in Japan as a non-profit private company. An organization known as FIMCO (Federation of International Management Consulting Organizations) conducts training courses in Japan and invites other Asians to participate in productivity courses. Members of FIMCO have at times advised other members on potential future business opportunities that they were not in a position to handle.

Of the 30,000 so-called management consultants in Japan, it is difficult to distinguish who are the actual professional consultants. Most of them are business diagnosticians with functions like those of extension officers of governmental or other public institutions elsewhere. They study and diagnose operations of small businesses free of charge, generally spending two to three days on one case. For lack of time they do not help the client to implement a recommended course of action, and in fact they do not generally make recommendations. They are not, therefore, management consultants in the usual sense but simply business diagnosticians.

Many training specialists and training organizations claim to offer management consulting services, but in fact most of them design training programmes and schedules after only a very brief investigation of the needs and conditions of the firm. Their approach and procedures are similar to those of the business diagnostician, but their work is less comprehensive or thorough. Since training and education are important functions of the

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* This chapter is based on a paper prepared for the Santiago meeting by Akira Takanaka, Executive Director of the Central Japan Institute of Industrial Management, Central Japan Industries Association.

management consultant, it is understandable that the training specialists should consider themselves a part of the broader profession.

Many others claim to be management consultants, in part because of the high professional "sound" of the term, and in part because in many cases their services are similar to or a part of the broader functions of the management consultant. For example, tax accountants, certified public accountants, patent attorneys and other business specialists are listed along with small-business diagnosticians in the membership of the Society of Japanese Management Consultants.

Several categories of professionals call themselves management consultants though not properly or actually engaged in consulting services as such, for example: professors of schools of business administration, writers and editors of management books, or administrators of management and productivity organizations.

A regulation or a legal provision should be provided to screen those who are eligible for management consultancy in order to authenticate the professional titles and to give properly trained consultants a valid claim to be considered part of the profession. Such regulations should be enforced to prohibit the use of unauthenticated titles and claims.

Various private organizations award their own titles to their members, and innocent clients may be misled into believing that the titles have been authorized by the Government. Several organizations even deceive candidates for training in management consultancy by charging enormous fees for courses and awarding certificates which presumably entitle them to use arbitrary titles.

Two of the main titles authorized by the Government are: "Professional Engineering Consultant" under the control of the Science and Technology Agency of the Cabinet; and "Registered Small-business Diagnostician". For the first, examinations are conducted by the Government, but no monopolistic privilege is awarded similar to that for certified public accountants and lawyers. The privilege is limited to the use of the professional title, and individuals are requested to register at the Science and Technology Agency for consulting work. "Registered Small-business Diagnostician" is the title given to those engaged in government-sponsored small businesses. Examinations are conducted by organizations authorized by the Ministry of International Trade and Industry; those who pass are registered by the Small-business Administration Agency. These titles do not prove that those who hold them are competent management consultants.

The Association of Professional Management Consultants, the oldest and most influential organization of its kind in Japan, has its own system of examining and registering qualified management consultants, and awards the title of "Keieishi" (management consultant) to those who pass the prescribed examination. This title, however, has no legal significance, and the Association makes it known that the title must not be used to enable the bearer to pretend that he is officially authorized by the Govern-

ment. Nevertheless, there are many who tactfully and advantageously use the title in promotional activities.

The complexity of the problem may be seen from the following classification of titles employed by management consultants:

(a) Official titles authorized by the Government:
Professional engineering consultant
Registered small-business diagnostician
Instructor in management training programme
Training officer in industry

(b) Titles given by professional organizations to their members:
Professional management consultant
Management consulting engineer
Management scientist
Other similar titles

(c) Titles awarded to graduates of training courses by professional organizations:
Management consultant
Office management specialist
Other similar titles

(d) Titles used by consultants or diagnosticians belonging to local private organizations:
Business diagnostician
Business modernization specialist
Other similar titles

However, the Government and many of the leading consultants hold the view that an enforced system of granting official titles would establish a professional monopoly. In this view the client himself is to determine who is the best-qualified consultant, and this evaluation should not be made by the consultants themselves nor by the Government. In the opinion of the author, it would be absurd for the consultants themselves to set the criteria and pass final judgement in this matter. The best measure for evaluating a consultant is whether he can provide satisfactory service to the client. The emphasis should be placed on a strict professional code of ethics rather than on the enforcement of legal or collective restrictions on the use of valid professional titles. This controversial issue is far from being settled in Japan, but it is to be hoped that in due time the principles of business economy will eliminate incompetent or unqualified management consultants violating the code of ethics.

One of the most significant developments in management consulting services since the Second World War has been the establishment of the Small-business Administration Agency in the Ministry of International Trade and Industry, and the rapid progress of small-business diagnostic services rendered by government and public extension-service offices.

Consulting services have expanded to keep pace with industrialization. The Association of Professional Management Consultants, which started

its activities in 1946 with 26 leading consultants, has grown to a membership of 2,800. The majority of consultants of large consulting firms are not affiliated with this association.

Late in the 1950s the Japan Productivity Centre was established through which Japanese industry as a whole has enjoyed abundant opportunities for introducing modern management techniques from industrialized countries, especially the United States of America. This has helped a great deal in the modernization and development of management consulting services and has given many Japanese consultants the chance to participate in joint consulting practice and seminars and training courses as well as to visit consulting firms in advanced countries to observe and study their practices.

Since 1958, the Productivity Centre has given annually a one-year training course for management consultants, each year turning out 60 to 80 candidates for management consultancy. Other organizations give similar training courses. A survey by the Ministry of International Trade and Industry brought responses from 242 organizations, of which 38 were conducting training courses. However, since one third of these courses run for less than 5 days and only 20 per cent for more than 20 days, their effectiveness is rather doubtful. There is a significant increase in correspondence courses; and for training small-business diagnosticians, the Small-business Promotion Association conducts an intensive one-year course, graduates being entitled to use the official title of Small-business Diagnostician.

Efforts to promote the performance and quality of consultants are carried out by the Federation of All-Japan Management Consulting Organization, with which 54 consulting firms and institutions are affiliated. This is considered to be the only organization of this kind, and almost all the leading consulting organizations—private, public and governmental—are affiliated. Unanimous agreement of the board of directors is needed in order to admit new members. Each year, the Federation holds a national convention where a nationwide contest is conducted for theses of management consultants concerning their practical and academic achievements for the betterment of professional services.

Recent trends in consulting services in Japan

Consulting services in Japan may be classified according to the five main types of services offered, as described below.

Services for large businesses requiring specialized consultants

An example of this type of service is that rendered by the Japan Management Association, which has more than 140 consultants. Although the services of the Association are not necessarily confined to the limited area of management functions, and senior consultants are able to participate

in general management consultancy, the Association is generally noted for its distinguished services in industrial engineering and production management. Relatively high standards are demanded of managers and supervisors of large enterprises, calling for highly specialized skills and long years of experience.

General management consulting services rendered by medium-size private consulting organizations

One group in this category consists of private, profit-making consulting firms, usually with fewer than 20 consultants, including relatively old consulting firms headed by veteran consultants, famous because of the reputation of their leaders. This group also includes relatively young consulting firms run on a partnership or associate basis, stressing a modern, systematic approach to consulting services and using organized teams. These firms usually employ graduates of long-term consulting training courses such as those of the Japan Productivity Centre, regional productivity centres and the like.

Another group in this category consists of private, non-profit organizations with about 30 consultants each. They are represented by the Japan Productivity Centre, the Central Japan Industries Association, the Institute of Business Administration and Management, the Japan Office Management Association and others. Some organizations have larger staffs, but these do not normally provide management consultants in the strict sense, their major activities being training, instruction, and editing journals.

Consulting services connected with training courses

Several large organizations specialize in selected management functions such as marketing, office management, materials handling, personnel management and industrial training. The Sales Promotion Bureau, the Japan Industrial Training Association, the Labour Management Research Institute, the Materials Handling Consulting Centre and the Japan Quality Control Association are the best known. The Sales Promotion Bureau has its own staff of over 150 experts who provide mostly training services, but also some consulting services in marketing. Some of these organizations function as administrative bodies and dispatch *ad hoc* consultants from their offices.

Consulting services to small businesses rendered by private, professional consultants

Over 99 per cent of business enterprises in Japan are manufacturing enterprises or commercial undertakings with fewer than 30 employees. Owners of small businesses usually seek outside services on a person-to-

person basis commensurate with what they can afford to pay. Usually, they make initial contact with governmental or public consulting organizations, which give free service. However, this type of service is provided for only three to four days at the maximum, and consists only of diagnosis, usually without a detailed recommendation and with no follow-up on implementation. Because of the limitations of such services, small-business managers generally seek more extensive consulting services from private consultants, some of whom are ex-employees of business-diagnostic bureaux of government or public organizations. Some of these offer consulting services along with cost accounting or tax accounting services.

Extension services rendered by consulting groups of governmental and public organizations

Of the organizations extending consultancy to small enterprises there are 457 chambers of commerce and industry, 2,769 associations of small industrial and commercial enterprises, and 52 small-business consulting bureaux attached to local governments. The Government has endeavoured to strengthen and enlarge these services, but is obliged to recognize certain essential defects of the system. The analysis and recommendations often leave the clients dissatisfied because of the incompetence of the consultants, or the lack of time to undertake intensive diagnosis. Furthermore, because the service is rendered free of charge, neither the consultant nor the client takes positive action to follow up the recommended course of action.

To solve these problems, the following measures are being put in force or are under consideration:

(a) Concentration of consulting service rendered by public organizations to areas where the so-called "group" or "mass" approach can be followed, leaving the "individual" approach to private consultants;

(b) Charging appropriate fees to clients;

(c) Undertaking extensive training for freshmen consultants and offering refresher and advanced training to career consultants.

PROCEDURES FOR RENDERING CONSULTING SERVICES

According to the information from the Small-business Administration Agency, the standard procedure for rendering consulting services is as follows:

Pilot study
Determining key points in consultation (problem identification)
Study of basic management problems
Consolidation of departmental problems
Preparation of recommendations

The procedure and content involved are similar to those for professional consultants except that the diagnosticians rarely deal with implementation of recommendations, which is the core and the most crucial stage of consultancy.

MAJOR TYPES OF CONSULTING SERVICES

Three categories of consulting services may be established as follows:

Consulting

Individual approach: Diagnostic, advisory and consulting services, model plants

Group approach: Diagnostic, advisory and consulting services:
Trade-wide
Industry-wide
District-wide

Mass approach: Meetings, symposia, conventions

Training

Individual approach: Demonstration services for in-plant training (pilot or model plants)

Group approach: Training, itinerant teams, marketing clinics, seminars, discussion groups

Mass approach: Exhibitions, meetings, radio, television, publications

Research

Individual approach: Aid for specific research projects

Group approach: Special report for the development of selected industries or commercial businesses

Mass approach: Special reports for small-business development

Government and public organizations are gradually expanding their activities to serve groups of enterprises rather than single enterprises for two reasons. One is the conviction that taxes should not be used to assist minorities, thus strengthening some enterprises while limiting their rivals and competitors. The other is that the limited number of extension officers can not fulfil all the requests received.

Consulting and counselling services rendered by city banks

Consulting services are made available to small businesses free of charge by the counselling divisions of city banks. Only the Industrial Development Bank of Japan is engaging in relatively large-scale intensive consulting services, whereas others give their services chiefly to promote public relations and customer relations. The Tokai Bank charges a fee, but only enough to cover its costs. Some leading banks are now considering profit-making consulting services in collaboration with foreign consulting firms or banks.

Other types of consulting activities

Consulting services for software businesses are becoming quite popular as are system-designing and programming services for electronic computers. Marketing research firms are also extending consulting or counselling services for product planning, designing, advertising and other functions related to marketing and sales-promotion activities.

The Small-business Investment Corporations of Tokyo, Osaka and Nagoya have business counselling or consulting divisions. The Nagoya Small-business Investment Corporation has been active in rendering consulting services to businesses in which it has invested funds. Their services include those rendered by their own staff; those rendered by a joint team composed of their own staff and *ad hoc* consultants; services subcontracted to outside professional consultants; and the activities of foreign consultants.

From the standpoint of foreign consultants, the Japanese market is very narrow. Various handicaps, such as the language barrier and different social and legal backgrounds, prevent foreign consultants from undertaking intensive consulting business in Japan. Currently, the following practices and approaches are observed:

(a) Exchange of contracts with a Japanese firm on a special project, dispatching consultants from the United States with no representative stationed in Japan. In this instance, the client asks the Government to allocate foreign currency for payment;

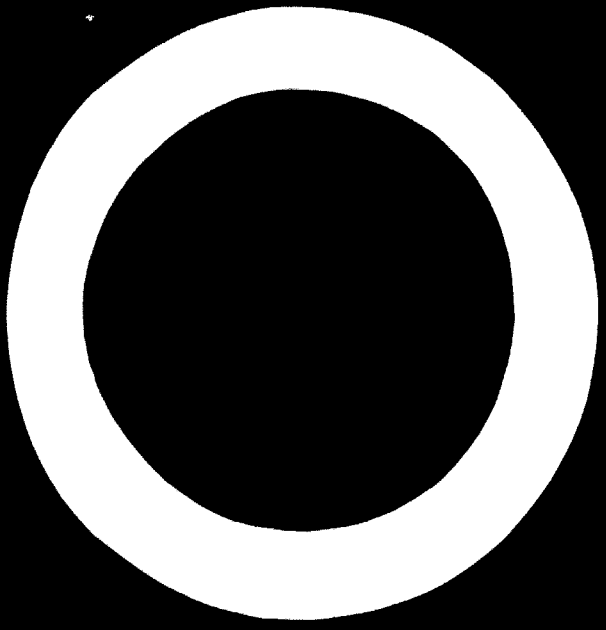
(b) Setting up a branch office in Japan dealing with consulting work on a project-to-project basis. In spite of the expected high potential market, the sales volume is not considered sufficient to keep consultants stationed in Japan;

(c) Joint ventures, considered to be the best approach for foreign consulting firms wishing to explore Japanese markets.

Some leading foreign consulting firms are quite active in establishing joint ventures or setting up branch offices. These firms are mostly large organizations, each with more than 500 consultants, giving attention to big corporations rather than to small businesses.

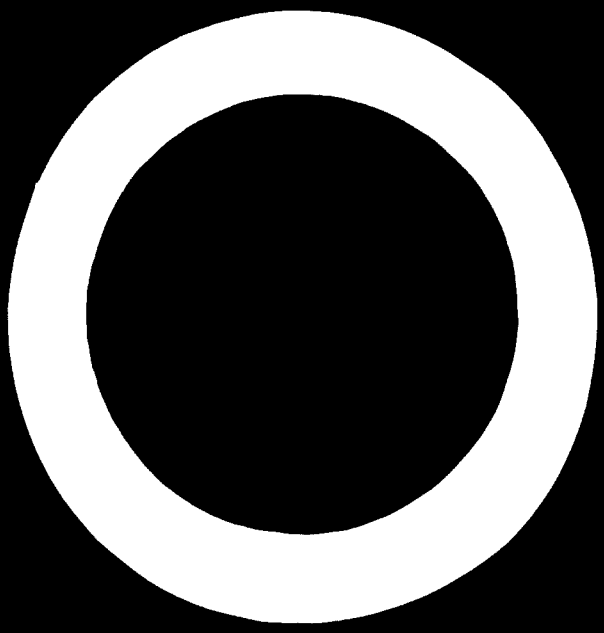
Surveys made in the past decade show the following principal reasons for using consultants:

	Fraction of response (per cent)	
	Survey made in 1963	*Survey made in 1970*
Not suffering from any critical problem but wishing to undergo general diagnosis	11.4	30.1
Seeking the causes of problems	5.5	7.9
Looking for the means of solving problems	8.2	8.6
Conflicting opinions among company members	6.2	1.0
Lacking the personnel to carry out implementation and instruction	10.7	13.8
Company employees occupied with routine work and with no time to attend to a particular problem	9.8	—
No suitable person available to tackle a particular problem	5.7	—
Wishing to adopt more advanced technology	42.1	—
Outside specialists considered more efficient	—	33.7
Other reasons	—	4.9



Part Four

AN UP-TO-DATE LOOK AT MANAGEMENT CONSULTANCY



X. MANAGEMENT SCIENCE: GENERAL SYSTEMS THEORY AND PRACTICE*

Management is generally considered to involve the direction of business, industry, government agencies, foundations and other organizations and activities. As society becomes more sophisticated and complex, there is an increasing need for improved management, and it becomes more important for management decisions to be based on carefully chosen goals. Thus, managers of businesses, industries or public systems are under continuous pressure to improve their decision-making procedures.

In part, this pressure results from the exponential growth of science and technology over the past decade. At the same time the scientific growth gives management the capability of increasingly effective decision making. Improved decision-making capability also reflects the progressive growth of a new intellectual environment in many parts of the world, in which systematic analysis of future alternatives gradually replaces the intuitive gamble as a basis for long-range planning. Moreover, the rising social consciousness among scientists tends to replace the approach of "science for the sake of science" with the more pragmatic goal of "science for the sake of society".

Improved capability for systematic analysis would not have been possible without the development of the computer. Initially, in the early 1940s, the computer was considered an improved bookkeeping tool. Since then, the speed of computer operation has increased by a factor of approximately 100,000, while the size of the computer has been reduced by a factor of 100 and the cost of its operation has been reduced by a factor approaching 100,000. These improvements are expected to continue for another decade. The increased automation of input data is expected to result in more direct communication between the computer and the user, while improved visual output display techniques will give the user dynamic illustrations of systematic analysis and evaluation of future alternatives, making the alternatives more real to the decision maker.

The interdisciplinary systems approach for the investigation and resolution of socio-politico-economic problems will assist the social

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* This chapter is based on the paper presented to the Santiago meeting by George L. Rounds, Vice-President and member of the Board of Directors, Temps Research, Inc., Seattle, Washington, United States of America. See also chapter II.

sciences to apply techniques developed by the physical sciences to the solution of these problems. While the systems approach was not initially developed by the aerospace industry, the tremendous growth of that industry over the past two decades has stimulated the development and use of mathematical models and simulation techniques and the systematic use of expert opinion in the resolution of complex problems. The application of these techniques in conjunction with computer-automated access to central data-storage banks can help management to apply the systems approach (employed by the aerospace industry to schedule and accomplish the landing of a man on the moon) to the resolution of man's socially oriented problems, involving ethnic values; social mores; political, economic and religious philosophies; psychological motivations, assumptions and reasoning processes; and complex interactions between desire and capability.

Whether the systems approach will be followed, and whether the advanced scientific techniques will be applied to the solution of man's greatest problems, is a shared function of the scientist and the manager. On the evolution of science planning in the United Kingdom of Great Britain and Northern Ireland, Sir Solly Zuckerman, formerly Chief Scientific Adviser to the British Government, commented:

> "We live in a period of uncontrolled and accelerating change, an age in which technology has raced ahead, and in which hallowed social values have tumbled . . . We live in an age of paradox: an age in which the politician has been straining after the scientist and technologist, and in which the latter have been trying to understand the social consequences of the innovations to which their work has led. The world is clearly living through a period in which the aims of politics and the outcome of scientific endeavour appear to clash.
>
> "Since the scientist is in the public arena only as the expert worker and adviser, it is his employer, whether it be the government or the board of an industrial company, which commands his service and which has the responsibility for action. The decision whether to accept or reject his advice is theirs and theirs only. If the scientists who now advise want more of this, then they will have to become politicians, or if not that, then at least managers of industry."[1][1]

GENERAL SYSTEMS THEORY AND PRACTICE

General systems theory is the branch of knowledge that attempts to reveal the common attributes of all real-life phenomena. [2] In recognition of common governing principles evidenced from the findings of the various scientific disciplines, an over-all theoretical framework has been developed

[1] Numbers given in square brackets relate to references given at the end of this chapter.

for the conduct of systematic research into these common attributes. General systems theory permits scientists to relate findings and compare concepts with similar findings and concepts in other disciplines and provides a common language for communication between scientists in the various disciplines (physicists, mathematicians, economists, biologists, chemists, political scientists, sociologists, engineers, planners, architects) when they are working together on common programmes towards common objectives. [3]

The central unifying concept of general systems theory is the system generally understood to consist of an organized combination of elements that together form a complex unitary whole. The term "system" covers an extremely broad spectrum of concepts — from the universe, to the solar system, transportation systems, communications systems, economic systems, medical systems, business systems etc. A hierarchy of systems is seen in which the systems at one level are the subsystems for the next level.

Just as the system provides the central unifying concept of general systems theory, so systems science — the science of science — provides the development methodology. Essentially, systems science provides the basic structural framework that orients and unifies all scientific disciplines in an integrated body of knowledge. Systems science is concerned with coherent whole systems: it accepts the inherent problem complexity as an essential, non-ignorable property; it leaves the internal interactions intact; and it is primarily concerned with the development of scientific solutions appropriate to complex problems of social origin.

The concept of the interdisciplinary team is a logical development of a cultural and mission-oriented society with a working knowledge of general systems theory and systems science. Social problems can be structured according to the general systems approach, which takes into account the context of the environment in which the problem is located and the system functions that must be performed to the required level in order to achieve the basic system objectives.

APPLICATION OF THE SYSTEMS METHOD

The explosive growth of scientific knowledge and rapid technological change in the last century have led to a high degree of specialization in organization personnel. Thus, large organizations, facing progressive technological changes and staffed by highly specialized technical personnel, require executives who can analyse, plan, integrate and control multiple, complex operations. Traditional management approaches have had to give way to the systems approach, which integrates systems science and management science.

The sophisticated and complex systems required for the United States programme for the exploration of space have involved manned and unmanned flight systems, the related launch facilities, world-wide tracking

networks, control systems, telemetry systems, ground support equipment and extensive communications systems. The timely co-ordination and integration of all these elements into an effective operating space system presents a tremendous challenge to the National Aeronautics and Space Administration and to the aerospace firms participating in the development and operation of the space programmes.

The development and operation of airline systems, like the space programme, involve not only passenger- and cargo-carrying aircraft, but also extensive maintenance and repair facilities, communications systems, flight control systems, passenger/cargo loading and unloading systems, automated flight reservation systems and air traffic control systems. An automated flight reservation system consists essentially of a computer-operated inventory control system that controls the status and allocation of each airline passenger seat over the complete airline operational network. The same system provides inventory status information continuously for each individual aircraft in the system. An air traffic control system provides for continuous control of individual aircraft from the departure airport through the *en route* traffic to the destination airport. This control involves *en route* directions, speeds, altitudes and times, as well as any corrective action that may be required.

Application of the systems concept to complex airline operations involves also aero-ecology — the science of integrating an airport into the community it was designed to serve, taking into account the feelings of conservationists and the vast traffic to and from the airport. In the past, airports were conceived, designed and constructed with little regard for community development programmes, and the aerospace industry today is paying for this oversight. Many of the difficulties now faced by airport authorities throughout the world result directly from the fact that the majority of airports were not developed as an integral part of their communities. It is now evident that the airport must fit harmoniously into over-all plans for community expansion and development.

During recent years the systems concept evolved by the United States aerospace industry has been applied to a number of diversified programme areas, including: surface transportation systems, oceanography and marine systems, water resource management systems, air resource management systems, solid waste management systems, information systems and data management, medical and health care systems, criminal justice systems, postal systems and fishery systems.

Typical recent applications of the systems method in the United States involve: the use of matrix methods to model the growth, survival and harvesting of the California redwood forests, [4] the proposed application of systems analysis and evaluation techniques to a comprehensive evaluation of national policy and fishery systems requirements for the North Pacific fishery system, [5] and the development of systems concept problem-solving techniques through computer programs to simulate the human thinking process. [6]

Systems science

The application of the systems concept for the effective management of the complex problems currently facing both industrial and governmental management involves integration of systems science with management science capabilities. The major disciplines of these combined capabilities may be shown as in figure 1.

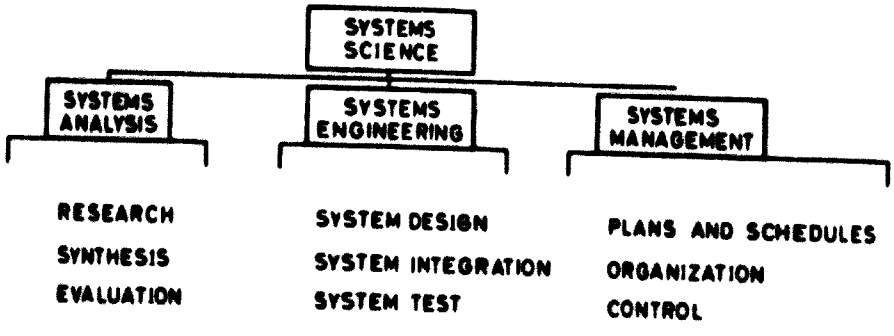

Figure 1. Major disciplines of systems science

Systems analysis

Systems analysis is concerned primarily with defining the basic problem and investigating what course of action, or what future system, represents the preferred policy decision. These policy decisions, irrespective of whether they deal with national, local or corporate problems, are ultimately based on official judgements concerning relative values, the possible occurrence of uncertain future events, and the desirability of alternative courses of action.

The major functions of systems analysis are to identify potential future problems (system requirements), clarify the alternatives available to the decision makers, and evaluate the consequences associated with the implementation of each alternative, thus freeing responsible decision makers to concentrate timely attention on the judgements involved in the allocation of scarce resources among competing requirements.

Systems analysis employs a scientific approach in order to develop and evaluate the requirements for future systems over a spectrum of values and criteria as a basic guide for responsible decision making. This approach involves analysis of the consequences of various policies of resource utilization through the establishment and evaluation of quantifiable (also qualitative as necessary) and commensurate relationships between: the functional and operational performance requirements for new systems, the alternative system designs capable of meeting these requirements, and the resources required for the implementation of each alternative design.

Systems engineering

Systems engineering, which is concerned primarily with the question of how a selected course of action may best be implemented, may be defined as the process of analysis, design, co-ordination, and integration of system elements (man and machine) to ensure that the various elements fit and operate together in an efficient and compatible manner to accomplish the required operational functions. The steps in the method are as follows:

(a) To translate the basic system requirements/criteria into a system design specification consistent with established resource constraints;

(b) To co-ordinate the development of system elements to ensure that the various elements fit and operate together, considering hardware, software, facilities, operations, maintenance and related factors;

(c) To integrate total system elements into a composite man-machine system and co-ordinate a system test programme to confirm compliance with the system specification;

(d) To monitor the operation of the developed system to identify deviations from expected performance and implement the corrective action required.

Systems engineering emphasizes the development of new systems to improve the performance of existing operations or to implement operations, functions or services not previously performed. In general, systems engineering is concerned with translating previously defined system requirements into a system design that is capable of satisfying the defined requirements. This includes the monitoring and co-ordination of the over-all system development to ensure achievement of programme objectives within the constraints of established rescources and schedules.

Systems management

Systems management consists of the functions of planning, scheduling, reporting, and direction and control required for the timely development and operation of integrated systems. The method may be outlined as follows:

(a) Plan, organize, co-ordinate and control the allocation and integration of available resources into a total system for the accomplishment of defined goals and objectives;

(b) Plan an integrated framework (long-range and operational) for management decisions through the selection of organizational goals and objectives and the development of policies, programmes, budgets and schedules required for their achievement;

(c) Set up the composite man-machine organization for performance of the functions required to achieve the goals and objectives. Assign the

authority and responsibility for performance of the functions, and integrate the multiple system elements and subsystems into the total organizational system;

(d) Co-ordinate communication of information and integration of effort among the decision centres of the various organizational subsystems and the operational environment in accordance with the programme plan, budget and schedule;

(e) Control the allocation of resources and the review, evaluation and direction of activity of the various functional organizations to ensure the accomplishment of the programme plan on schedule and within the budget.

Integrated planning involves the collective and co-ordinated result of planning at all levels of an organization to provide management with the information necessary for timely action in attaining goals and objectives. Two interdependent elements are involved: the development of information to aid management in its decisions for the control of operations, and the development of operating plans for the implementation of decisions and the achievement of specified goals.

Long-range planning is concerned with the development of information to assist in decision making on a long-term basis. Its purpose is to state and question the basic objectives of an organization, to forecast and question its outlook and progress, to examine and question its programmes and plans, and to consider other potential activities for the period under consideration.

Operational planning is concerned with the implementation of prior decisions. Its purpose is to relate the operations of an organization from one to another of its various activities, to provide a basis for timely and intelligent operating decisions, and to provide a common basis for evaluating the performance of the various organizations and operations.

The general information and control functions are concerned with the retrieval of information and its presentation to management for evaluation of programmes and the control of operations. Advanced, scientific information and control systems involve the increasing use of electronic data, the use of processing techniques to facilitate management assessment of the probable consequences of policy decisions prior to implementation, and the continuous evaluation of progress subsequent to implementation.

General systems approach

The general systems approach reflects the progressive development of the systems concept by the aerospace industry over the past decade. The primary objective is to provide the management decision maker with quantitative, objective, explicit, verifiable and timely data and information as a basis for decisions relating to the particular problem under consideration. The system design cycle is shown in figure 2.

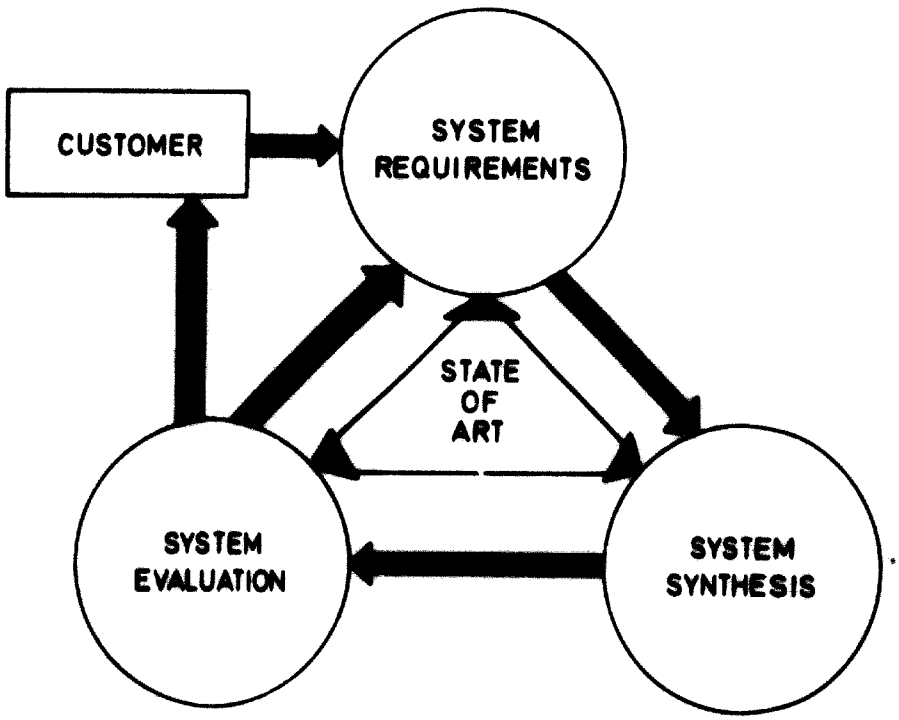

Figure 2. System design cycle

The following major functions are involved:

(a) Identification and clarification of the problem. This involves determination of the future system requirements, which must be measurable and sensitive to change, technically valid, based upon acceptable environmental data, consistent with relevant and credible operational concepts, and commensurate with the doctrines and policies established to achieve the basic goals and objectives;

(b) Synthesis of alternative conceptual solutions. With the system requirements defined, the alternative system designs capable of meeting these requirements must be developed and the technical and operational feasibility of these alternative systems analysed for the period under consideration.

(c) Evaluation of the benefits and penalties of each alternative. This evaluation and the selection of the preferred alternative system is based upon:

(i) System effectiveness in terms of acceptable criteria for accomplishing the required functions;
(ii) Compatibility with the environment, including other existing and planned operational systems;
(iii) A time schedule for development and operations;
(iv) System value in terms of resources, manpower and capital expenditures allocated to the development and operation of the system;
(v) The penalties associated with system development and operation.

The system requirements naturally stem from the basic goals and objectives so that the definition of goals and objectives is the starting point for the derivation of system requirements. Basically, goals represent ideals expressed as desired results, while objectives are considered interim steps to the goals.

Individual systems at one level of a hierarchy form the subsystems for the next higher level. The requirements at each level and the associated criteria for evaluating the effectiveness of the systems involved derive from the basic goals and objectives as shown in figure 3.

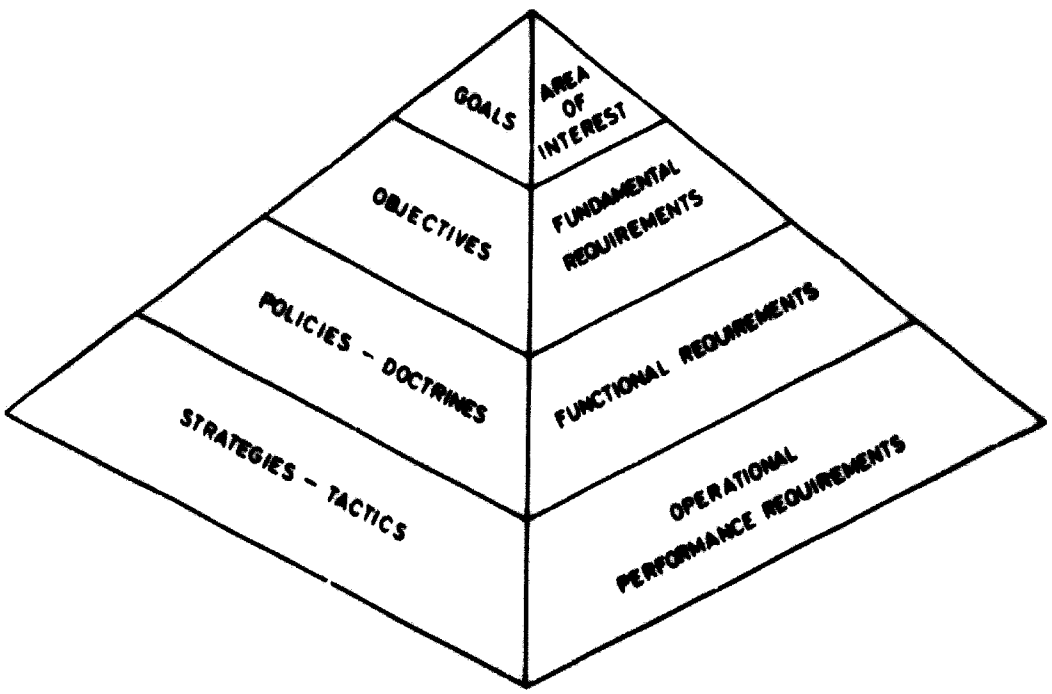

Figure 3. Hierarchy of system requirements

Policies and doctrines. Since alternative policies may be followed to achieve an objective, there is usually more flexibility in establishing a policy than in defining objectives. Under some conditions, a policy is the set of decisions resulting from the assignment of particular values to each variable, where the decision variables refer to the controllable input data for the system. Doctrines are sometimes considered synonymous with policies, particularly those policies which, because of long use, approach dogma.

Fundamental requirements. Specific actions in support of a particular policy may be general or precise, depending on the circumstances; they represent fixed points in the application of a policy. The fundamental requirements are the minimum basic decisions necessary for top-level definition of the problem. In this respect, the fundamental requirements

are analogous to the mutually independent quantities [7] of any domain of physics, such as the fundamental quantities of length, mass and time in the field of mechanics. Since they are fundamental by definition, they are the basis for all lower-level system requirements.

Functional requirements. These requirements are developed in terms of the specific jobs, missions and functions necessary to meet the previously determined fundamental requirements. The functional requirements are developed from relevant and credible potential crisis situations and are essentially independent of the type of system employed to control or resolve the situation.

Operational performance requirements. These requirements specify the performance characteristics required for each major system element. The performance requirements are a function of the technical state-of-the-art associated with the conceptual type of system under consideration as a possible solution for the previously determined fundamental and functional requirements. Operational performance requirements are derived requirements, definable in terms of the fundamental and functional requirements by means of similar dimensional relationships.

Directly associated with the development of system requirements is the development of the value system and criteria to be employed in measuring the ability of alternative system solutions to meet effectively the defined requirements. The value hierarchy is shown in figure 4.

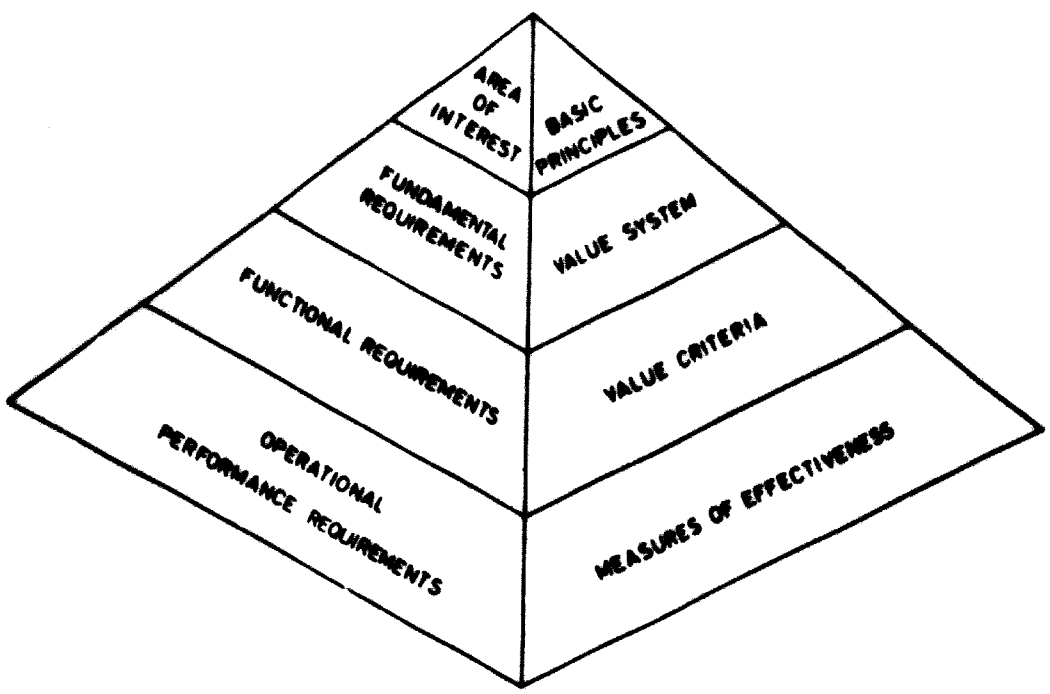

Figure 4. System requirements — value hierarchy

The major difficulty in this respect is the lack of adequate theories of value.[2] Value systems are indispensable to a culture. If management is to deal realistically with the problem of defining requirements for systems involving resolution of multiple, complex problems, such as labour relations, public relations, morale, equipment performance, communications and teamwork, it must be realistic about the potential conflicts in human values. [8] Despite the fact that many human values are inconsistent, conflicting and unrealistic, and are thus dubious guides to beliefs, attitudes and actions, they are a fact of life and must be taken into account. Basic values differ widely from individual to individual, group to group and culture to culture; they are dynamic and subject to change within cultures and groups and even within individuals over a period of time. The common denominator of the majority of system problems is the definition of the basic value system associated with the fundamental system requirements. The value system must be reasonably consistent internally, reasonably consistent with reality, and accurately reflect the basic goals, objectives and policies of the responsible decision makers.

Measures of effectiveness are directly related to the operational performance requirements; thus a criterion by which solutions will be judged must measure the effectiveness of the system. The criterion must be quantitative and capable of being expressed unequivocally in terms of a number. It must be efficient in the statistical sense with comparatively small variance and must be obtainable with reasonable accuracy without excessive cost or delay. The measure of effectiveness should be simple where this is compatible with completeness and should have physical meaning to reduce the chance for error in its use. In some problems marginal utility provides a meaningful measure of effectiveness. For example, as the system resources allocated to the performance of a specific requirement are increased, at some point the marginal products of additional resources decline, or the marginal costs of additional effectiveness tend to increase as indicated in figure 5.

Significant progress has been achieved in the development of methodologies suitable for the quantitative derivation of operational performance requirements for advanced systems, together with the related criteria necessary to evaluate the degree of accomplishment of these requirements for each type of system. One such method is shown in figure 6.

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[2] Socrates trained Athenian youth to question the values of their society. Systems of value judgements using Aristotle's seven principles (aesthetic, economic, ethical, judicial, moral, religious and political) were the basis of values for succeeding civilizations, each civilization failing when it could no longer direct its cognitions, emotions, and actions to maintain its fundamental system of values.

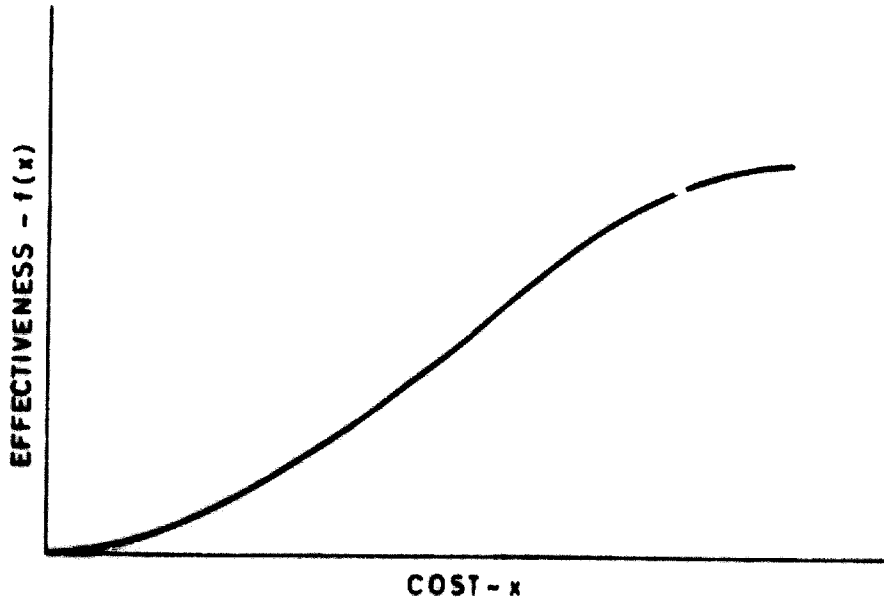

Figure 5. Effectiveness and cost

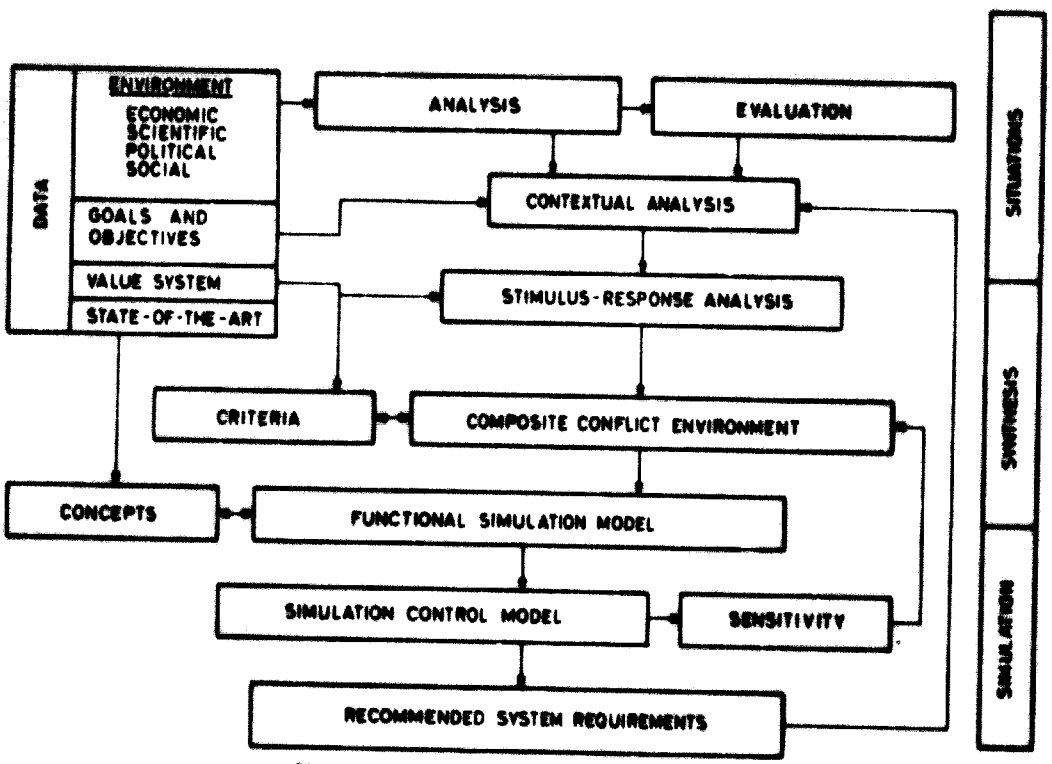

Figure 6. Advanced system requirements

The method consists of:

(a) A *situations phase* to identify potential crises that are relevant to the environment. These potential crises reflect the basic goals and objectives and the fundamental policies and doctrines of the organizations involved in the crises. Fundamental requirements are established in this phase;

(b) A *synthesis phase* to derive the functional requirements necessary for the effective resolution of the crises in context with the environment in which they were generated;

(c) A *simulation phase* to derive the operational performance requirements for each type of system that is deemed to have any capability of accomplishing the fundamental and functional requirements. This involves a sensitivity analysis to assess the validity of the derived requirements.

Subsequent to the development of the system requirements and their associated criteria, the alternative type of system capable of meeting these requirements must be designed. This system synthesis, as shown in figure 7, involves the development and analysis of the operational concept and configuration of complex systems to meet the specified requirements and to achieve prescribed levels of effectiveness, including analysis and definition of the functions, activities, interactions and performance of each contributing subsystem and component to ensure compatible and efficient operation of the basic system.

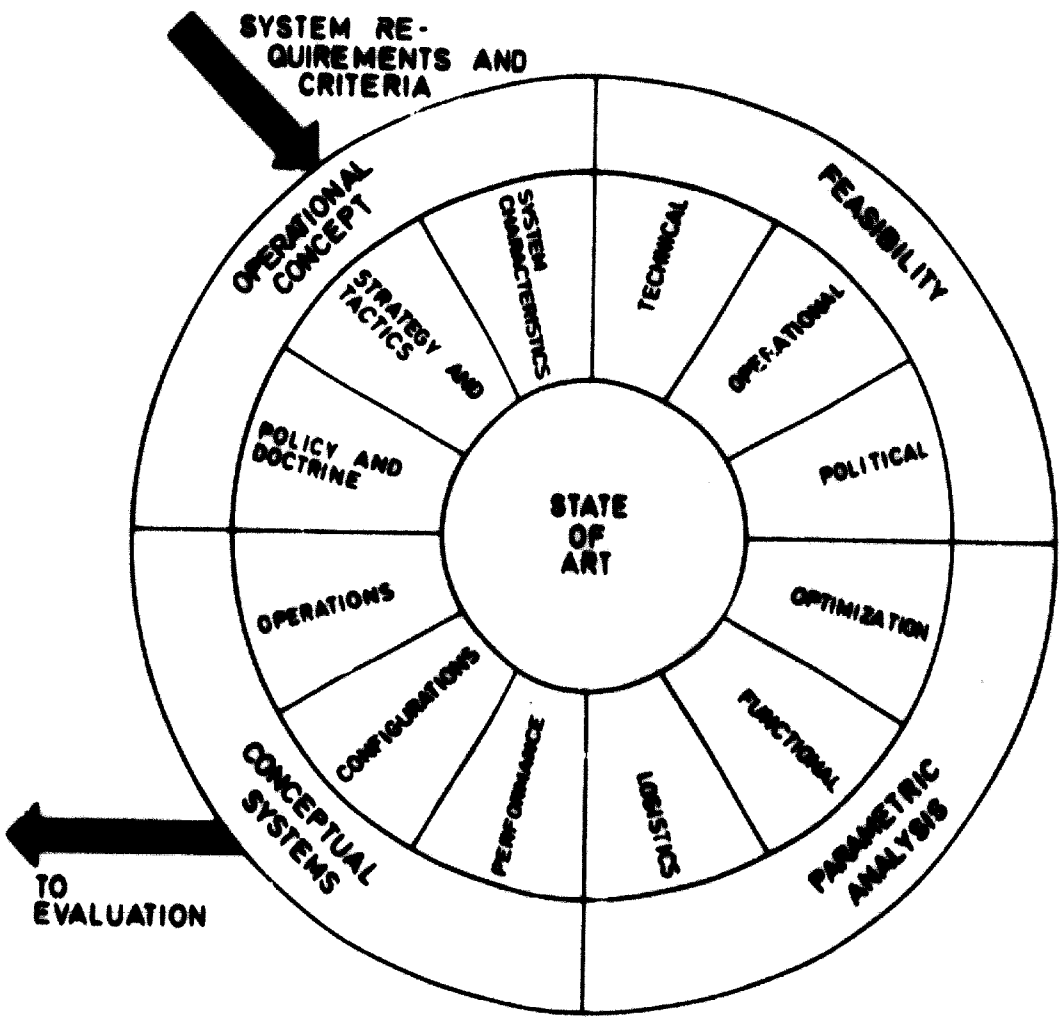

Figure 7. System synthesis

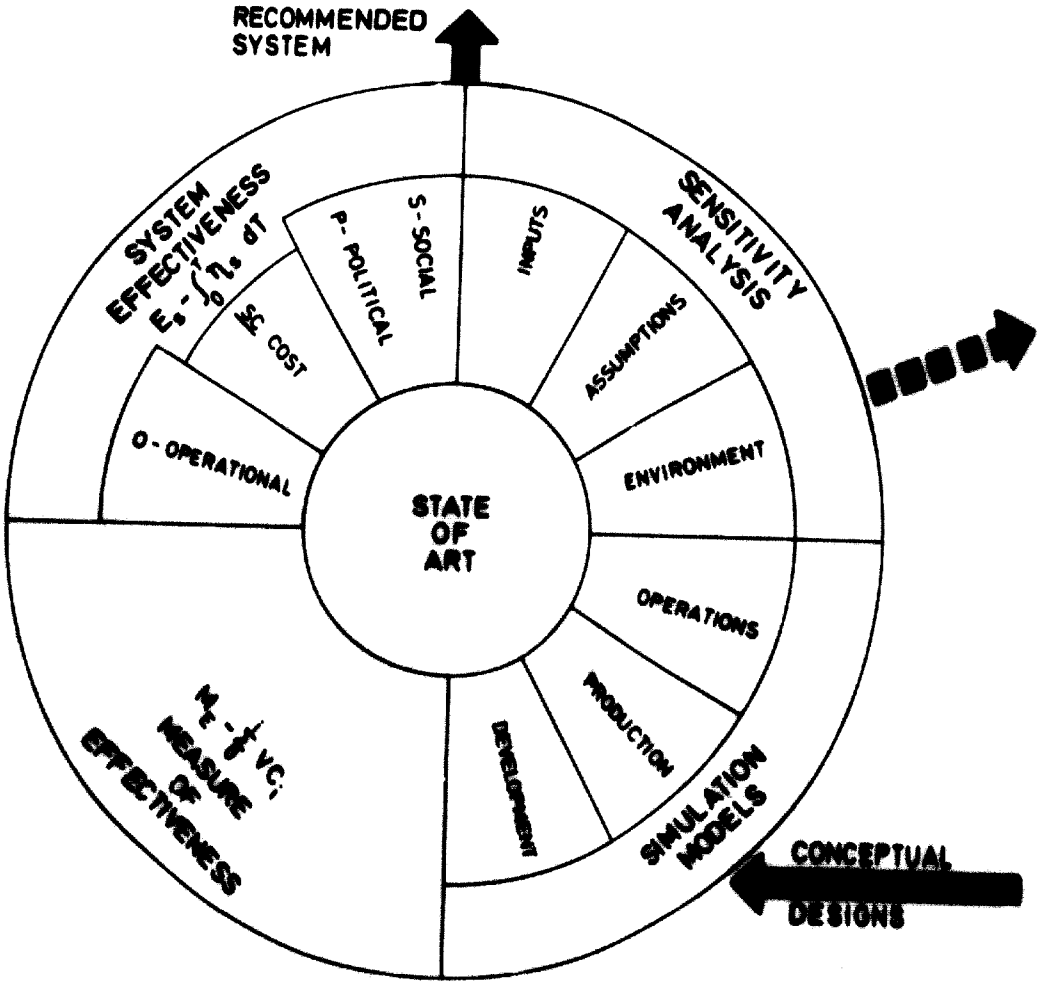

Figure 8. System evaluation

Evaluation of the alternative systems to determine the preferred system is accomplished by using conventional analytical and simulation techniques as shown in figure 8.

The criteria for evaluation of system effectiveness are the same as those developed in conjunction with the determination of the system requirements, with the exception of system life cycle costs which now can be determined and utilized in the evaluation. The results of the system evaluation are recommended to management for implementation.

CONCLUSION

The application of systems science and management science techniques to current business and industrial problems is accelerating and may well result in significant changes in management organization and structure.

One approach that offers some potential improvement is the concept of matrix management, which presents a distinct alternative to the classical concept of unity of command.

In the matrix-management concept, an individual may work with several superiors rather than just one. One axis of the matrix identifies the project managers of the various programmes, while the other axis identifies the resource manager, who is concerned with materials, finance, facilities, operations etc. Each set of managers is responsible for the efficient operation of its programme or resource function. The executive management's function is to resolve the conflicts that develop among and between the various sets of managers. If this concept is applied to management consulting, a multidisciplinary professional team approach may be the result, as shown in figure 9.

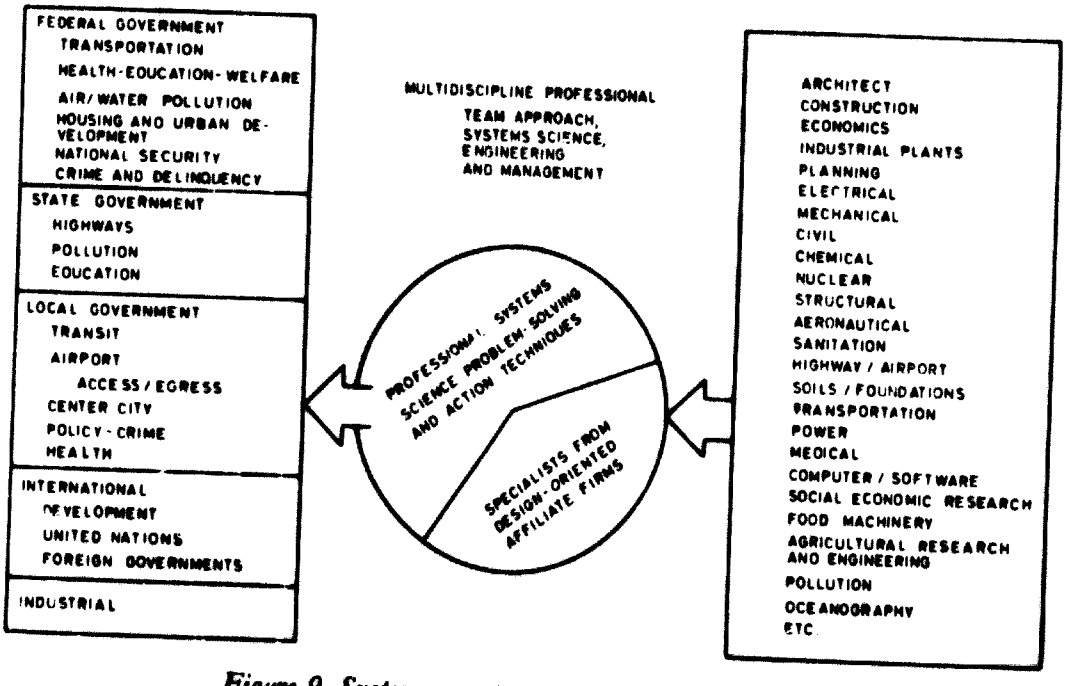

Figure 9. Systems concept — management consulting

In this concept, the consulting team may function as a systems management consultant to co-ordinate and integrate teams of specialists from multiple design-oriented affiliate firms to handle a variety of federal, state and local government problems as well as industrial and international problems. There is an urgent need to improve the management-consulting processes and the effectiveness of business organizations. Matrix management may help to provide a satisfactory method for this.

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XI. THE CROSS-TRANSFER OF MANAGEMENT SKILLS: CULTURAL ASPECTS AND PROBLEMS*

It has been amply proved in theory, and through research and practical experience, that a manager's effectiveness depends on several variables:

First, success depends upon the manager's technical proficiency in performing the art and science of management, which is based on an understanding of, and an ability to apply, the theory of management, including principles of management, theories of organization, decision making and systems analysis. The executive must have a conceptual framework that helps him to understand and control his organization.

Secondly, successful performance of the managerial function depends on the individual's managerial philosophy—his total philosophy, his sense of values, the principles that guide him in making decisions, and intangibles that distinguish one man's beliefs from those of another.[1] His philosophy should, of course, be compatible with his firm's objectives, since his basic assumptions will determine his decisions and actions.[2]

Thirdly, the general environment and particular work climate in which the manager operates, including all the elements that make up the physical, social, political, economic and spiritual environment, influence his effectiveness.[3] If he is a true executive, he will in turn influence that environment.

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* This chapter is based on a paper presented to the Santiago meeting by Leon C. Megginson, Professor of Management, Louisiana State University, Baton Rouge, Louisiana, United States of America.

[1] O. A. Ohmann refers to "... repeated experience I have had with certain executives who seem to know all about the art and science of management and yet are quite ineffective, and with other executives who seem to violate most of the rules in the book and yet are extremely successful. Experiences of this sort led me to conclude that the explanation lies in the value structure of the individual's philosophy". "Skyhooks, with special implications for Monday through Friday", *Harvard Business Review* (May—June 1955).

[2] "The values that are most important to an executive have a profound influence on his strategic decisions." William D. Gruth and Renato Tagiuri, "Personal Values and Corporate Strategy", *Harvard Business Review* (September/October 1965), pp. 123 132, especially p. 124.

[3] See H. C. Metcalf and L. Urwick (eds.), *Dynamic Administration: The Collected Papers of Mary Parker Follett* (London, Pitman, 1941), especially "Constructive Conflict" and "Business as an Integrative Unity".

DEFINITIONS AND INFLUENCES OF CULTURE

The culture that is part of the environment in which the manager operates has a tremendous influence on his effectiveness. Culture can be perceived as the set of common understandings that characterizes a social system's way of life. Every country has several cultures or subcultures. Spain, for example, has at least six cultures — the Catalan; the Basque; the Asturian; the Estremaduran; the heterogeneous culture around Madrid; and the culture resulting from Moorish influences around Granada, Seville and Córdoba. The culture of southern Louisiana in the United States of America, which is based on the Mediterranean culture, coexists with that of northern Louisiana, which derives from the Hallstatt culture.

During the past ten years a study has been conducted to test two hypotheses, namely:

(a) That there is a direct relationship between a manager's knowledge and his ability to adjust to the cultural environment and his effectiveness in performing the managerial function;

(b) That the greater the difference between the culture in which he operates and his own cultural heritage, the greater will be the impact of the newer culture on his effectiveness.

In the past three years the emphasis of the study has shifted to the influence of cultural differences on the ability of a consultant to operate effectively. Two assumptions are made either explicitly or implicitly:

(a) That all factors other than the consultant's effectiveness and cultural differences were held constant;

(b) That if a consultant can effectively move to a second culture he can move to any other one like it and operate with equal efficiency.

Two definitions of the world "culture" should be noted:

(a) Culture is a set of ideas, habits, attitudes and beliefs evolved by a group of men to help them conduct their lives in an organized society. The whole culture comprises the knowledge, beliefs, arts, morals, laws, customs, mores, language, religion, and other capabilities and habits acquired by man in social groupings, the totality of the "learned and transmitted motor reactions, habits, techniques, ideas, and values—and the behavior they induce. . . ."[4]

(b) There is a definition of culture which pertains only to the part of the whole culture in which the individual person participates. Here, the definition refers to the individualized and personalized enlightenment and refinement of taste acquired through intellectual and aesthetic training, the individual's education, and the degree and type of his personal development. These elements of the individual's culture are determined by his heredity and the general culture in which he lives.

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[4] A. L. Kroeber, *Anthropology* (New Edition, New York, Harcourt, Brace and World, 1948), p. 8.

Intercultural conflict occurs because each society places emphasis on certain values and traditions as compared with others and resists what appear to be pressures for changing those values. Each society builds a system of values to explain its place in the natural world and its position with respect to other human groups as a basis for justifying its existence and cultural system.[5]

INCREASING HOMOGENEITY OF CULTURES

As the economies of the world increase their wealth, their cultures tend to become more homogeneous. Expanding technology and industrialization have a tendency to turn developing countries in the same general cultural direction, regardless of their heritage and ideologies.[6]

However, in spite of the trend to homogeneity, it is not likely that the "melting pot" adaptation of the international business communities experienced in the last century will be repeated. More likely each society will retain its individuality and unique cultural features, unlike the assimilation of the nineteenth century, when, for example, an immigrant was expected to learn the language of his new country and forget his native tongue. Now, for economic as well as for aesthetic reasons, the emphasis in most cultures is on learning more than one language.

There is now developing a managerial culture, a "third culture", which tends to have essential similarities the world over.[7] Managers from different cultures understand each other easily. This managerial culture is truly supranational and is separate and distinct from the other cultures within the country or area.[8] For example, many European businessmen think of themselves as just "European businessmen" and not as nationals of any one country. The same appears to be true of Asia, especially of Japan. This factor facilitates the intercultural movement of consultants.

THE CONSULTANT'S CULTURAL ADAPTATION

When a consultant is given an assignment to another culture, the problem of adaptation becomes a crucial one for him. His cultural adaptability and his effectiveness are interrelated and interdependent. The culture

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[5] David Landry, "Man's Adaptive Processes: Cultural Influences on Behavioral Change," *Corrective Psychiatry and Journal of Social Therapy*, Vol. 8 (1962), pp. 83—89.

[6] See "Industrialism and World Society", *Harvard Business Review* (January/February 1961), pp. 113 ff.

[7] See John Useem, Ruth Useem, and John Donoghue, "Men in the Middle of Third Culture: The Roles of American and Non-Western People in Cross-Cultural Administration", *Human Organisation* (Fall 1963), pp. 169—179.

[8] "The businessman of the future . . . will be one of the key figures in a world of civil service . . . for whatever their official labels may be, most of them . . . will be employed in building up and maintaining the new world order that seems to be our only alternative to genocide." Toynbee, quoted by Richard F. Ericson in "Toward a Universally Viable Philosophy of Management", *Management Technology* (May 1963), p. 55.

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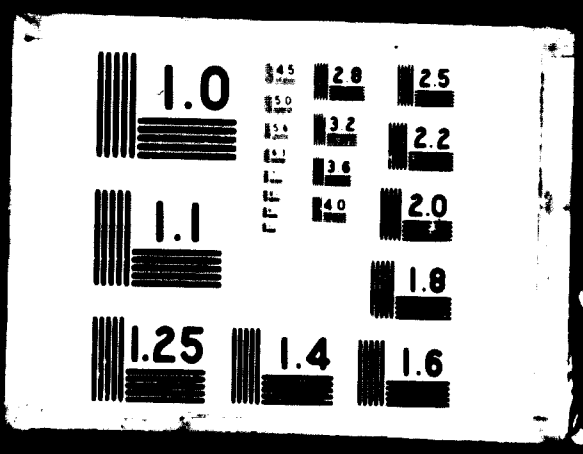

influences the consultant's effectiveness, and he in turn exercises an influence on the culture in which he operates.

It is natural that the management consultant will work more effectively in an area where the cultural elements of language, technology and customs are similar to those in his own country. Uruguay and Chile, for example, have many cultural similarities so that a consultant from either country is able to operate quite effectively in both. Conversely, the more diverse the cultural elements, the more the culture will affect the consultant's effectiveness.

It is easiest to adjust to the more superficial cultural elements – those associated with art, music, food and even language. The more subtle elements of disparity between cultures are those associated with the society's sense of values, and these are naturally the most difficult to adjust to and to define. Values exist in a complex system of beliefs, assumptions, feelings and emotions. The most important values are often hidden and not easily perceived. The more central a value is to the system the more strongly people resist changing it.[9] Examples of such values are the pride of Spaniards and Latin Americans in their heritage, the joy in work characteristic of Germans and the dedication of the Japanese to family and country.

Fluency in the use of a local language is important, but not as important as the desire and willingness to learn the language, for the desire to learn evidences empathy for the values of the country. Without willingness to learn the language there is a definite barrier to understanding and becoming involved in the local culture. Failure to comprehend the language will isolate the consultant far more than his physical location.

In general, it is easier for a consultant to move from an older, more established culture to a less developed one than vice versa, because he will be accepted more easily in the new society than in the older society with its many artificial barriers. Consultants generally find it easier to adjust to cultural changes than do their wives, for the consultant carries his culture with him in his work, while for his wife everything is new. Women from a sheltered culture have greater difficulty in adjusting to the more open cultures.

The economic system, apparently, has relatively little effect on a consultant's effectiveness because competition for jobs and success is found in all systems. Also, fundamental principles of management are the same in all systems. The emphasis placed on "profits" is as great in Eastern Europe as in Western Europe. However, methods of business operation, including the concept of ethical practice, do affect managerial effectiveness. For example, efficiency may be desirable in Japan or in the Federal Republic of Germany where there is a shortage of personnel and a need to reduce costs in order to compete in foreign markets. But is it desirable in India or Pakistan where when an employee's job is eliminated "you break the rice bowl of six other persons"?

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[9] See Charles K. Mann, "Sears, Roebuck de Mexico: A Cross Cultural Analysis", *Social Science* (June 1965), pp. 149–157.

Technology is another important cultural factor affecting managerial efficiency. However, as technology is transportable from one culture to another,[10] and is tending to equalize around the world, its effects on consulting are limited. It is easier for a consultant to move from a lower level of technology to a higher level and to operate effectively than to move from a higher level to a lower level. A person from a culture with a higher level of technological development may tend to extol his own country's accomplishments and implicitly or explicitly criticize those of the host country. It is also difficult for one who has learned to operate with machines, equipment and advanced knowledge to operate without them. Yet consultants from cultures with higher levels of technology are generally those most sought after, and there is a tendency for them to recommend their technology whether it is the correct one for the other culture or not.

There tends to be a direct relationship between the level of wealth of a firm or culture and the level of its technology. In the less developed countries the low level of technology is self-perpetuating, for the people are reluctant to change. Living for the most part at a subsistence level, they do not risk the failure associated with changing to another system of production. If the new method succeeds in those countries, the welfare of the people will be higher; but if it fails, the consequences will be severe. This resistance to change hampers the introduction of consultancy. The level of economic development of a country tends to be reflected therefore in the type of consultancy used.

The cultural elements that most influence managerial effectiveness are the spiritual values and the educational system. The manager's philosophy determines the assumptions on which he makes decisions, while the host country's educational system and general culture determine the knowledge and the type of analysis used by its executives in decision making and set the level of its technological development. Spiritual values influence personal objectives, while education determines the method, or the means, of achieving those goals.

A consultant's personal cultural background is his starting point. He needs to know his own and the host country's culture in order to have a breadth of discussion. He should be able to discuss subjects other than business—aesthetic and artistic values, for example. One general criticism of consultants is their tendency to talk exclusively about business activities.

PROMOTING CONSULTANCY IN LATIN AMERICA

As indicated above, the greater the consultant's ability to adapt to a given culture, the greater his effectiveness. The more diverse the culture of the host country from that of his own country, the more it will influence

[10] See Norman Burns, "Application of Technology and the Cultural Heritage", *Advanced Management Journal* (July 1965), pp. 48—55, for a discussion of the desirable and undesirable aspects of introducing technology into an existing culture.

the manager's effectiveness; conversely, the more similar the culture, the less it will affect his work.

The researcher may well ask: what factors in the consultant's background forecast his effectiveness in operating in another culture? The following criteria appear to be valid predictors of success for consultants in cross-cultural operations:

(a) He must have professional competence.[11] The engineer must be a good engineer, the chemist a good chemist, and the management consultant must know how to use the science of management and be able to teach it to others;

(b) He should have an optimistic outlook and a personal philosophy that accepts value differences in others. He should be able to see the similarities in people, places and cultures, for undue emphasis on differences will lead ultimately to conflict.[12] His effectiveness can be impaired by an unreasonable and emotional exaggeration of differences, especially if he constantly emphasizes the achievements of his society as being superior to those of the host country's society;

(c) He should have a history of success in various activities other than his professional activities;

(d) Self-reliance is an important factor, for in another culture he is "on his own" more than when he is engaged in domestic activities;[13]

(e) To be most successful, a consultant must remain in a new culture sufficiently long to identify and empathize with those he deals with;

(f) Learning to trust others is important, but probably more important is the ability to instil in others a trust in him. His perception of and his sensitivity to the values in another culture are essential to his success as an international consultant.

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[11] See John M. Ivancevich, "Selection of American Managers for Overseas Assignments", *Personnel Journal*, Vol. 48, No. 3 (March 1969), p. 189 ff.

[12] See John A. Seiles, "Toward a Theory of Organization Congruence with Primary Groups", *Behavioral Science* (July 1963), pp. 190—198, for empirical propositions which show that the greater the contrast in values and norms between two groups, the greater the tendency for those groups to reduce their interaction with each other. Collaboration only occurred when there was considerable similarity in the norms and values of the two groups.

[13] See Antonie T. Knoppers, "Sources of Manpower for International Management", *Personnel*, Vol. 44, No. 1 (January—February 1969), pp. 8—15, for a discussion of this point.

XII. DIAGNOSTIC MANAGEMENT CONSULTING*

There is an ever-increasing need for a new function to serve as the connecting link between the potential clients and the consultants. This function would upgrade management consulting and would protect the interest of both the client and the consultant.

A new relationship between the client and the consultant is emerging. "Diagnostic management consulting" is the newly defined role of the consultant in which the client's needs for consulting assistance are established by making a routine check even before serious problems arise. The objective assessment serves as a kind of "preventive maintenance" for management and makes it possible to select consultants who are best qualified to resolve the specific problem. This type of diagnostic work requires a high level of professional skills from many disciplines to establish positively the scope and requirements of the consulting work. Such consulting services evaluate and tie together the capacity needed to meet the demand in a co-ordinated and well-integrated fashion through consolidation of the resources that are often scattered among numerous smaller consulting firms.

INTEGRATION OF MANAGEMENT CONSULTING FUNCTIONS

The role of management consultancy has increased proportionately with the development of organizational structures. The division of labour and specialization of functions has resulted in a complex relationship, which has had to be closely co-ordinated in a viable and well-synchronized whole. Management consultants have had to command expert knowledge so that through objectivity and instant availability of professional skills they could reshape and maintain the organizational structure to meet the predetermined goals.

The rapid technological advances of the past two decades and corresponding organizational changes in industry compelled management to rely more heavily on the expert knowledge of consultants. Management con-

* This chapter is based on a paper presented to the Santiago meeting by the secretariat of UNIDO.

sulting has been recognized as a problem-solving profession that can quickly execute assignments and submit to management either a set of alternatives or the most feasible solution. The advantages of management consulting are acknowledged mainly to be the immediate availability of specialized skills and the consultant's objective approach to the problems as well as his accumulation of experience.

The reasons for acceptance of management consulting were compelling and profound. The evolution of technology and the complementary evolution of organizational structures based on a division of labour and specialization of functions made it necessary to cope with increasingly complex problems. Difficulties arose, however, in the co-ordination of various functions. Industrial organizations, like complex machines, suffer from complex problems which can no longer be resolved without the co-ordinated efforts of specialists. The more complex the problem, the greater the expertise required. Since expertise implies also narrower specialization, the remedial actions require larger teams of experts. Thus the need for specialization outgrew the range and depth of knowledge of any individual. It was no longer possible for a consultant to take care of the entire cycle of functions, from the diagnosis of the problem to the execution or even the implementation of a project. The various tasks had to be distributed among various professions or experts.

The trend towards increasing specialization gave rise in time to a new problem, the "technocratic tower of Babel". Each expert tended to view the over-all problem in terms of his own specialization and gave disproportionate weight to his particular functions. As a result, the co-ordinating function emerged as increasingly important, calling for management to supervise the specialized functions of various disciplines and co-ordinate them through a team approach.

Generally speaking, the importance of management grows proportionately with the complexity of the task and the number of skills required for its achievement. Consequently, a whole array of new functions has developed within management consulting in order to deal with the complexity of evolving industries. The core of the consulting profession is in fact management consulting. Management permeates most organized activities, and it is often very difficult to determine whether the problem is technological or attributable to management. The most marked development, however, has taken place in the management sciences, which provide the back-up knowledge for the more sophisticated operations.

The original functions attributed to management (such as accounting, finance, marketing and manufacturing) can be called classical, while the modern supporting disciplines are usually combined under the title of "management sciences". There is a definite interrelation among management functions, and in particular among functions of management science. A definite sequence of application as well as a hierarchy of precedence is required in solving organizational problems. As a doctor performing an operation must use his surgical instruments properly, so the management

scientist must decide on a proper sequence of carrying out the various functions. For the sake of illustration, some of the basic techniques of the management sciences are reviewed below.

Management implies a continuous decision-making process. The wisdom of the decision will depend on the quality and quantity of the information management receives. Decision making depends on processing of data to present meaningful and relevant information. The objective of the decision making is of major importance, for the value of each bit of information changes in accordance with the objective, and proportionate weights must be assigned in order to relate the information to the specific decisions. Evaluation of the information in relation to the objective is usually based on empirical knowledge, but it can be aided by mathematical techniques embodied in operations research.

The real role of operations research is, however, more than applied mathematics. Operations research is an interdisciplinary science. Its aim is to facilitate decision making, often by the use of quantitative techniques based on statistical inference, conjectural methods and methods stimulating further investigation or simulation methods. The value and potentials of operations research have been fully appreciated only since the advent of computers, which enabled the management scientist to resolve the complex mathematical models concerned primarily with problems of optimization. And so computers joined in decision making through data processing – data storage and retrieval and speedy computation of mathematical models and equations which would otherwise have taken years to solve. With computers came the programmers, the computer scientists, who steered the powerful computer device towards predetermined goals with the help of the systems analysts. The systems analysts in turn designed the pipelines through which the information data passed to and from various centres of command and control and returned with the feedback data to be processed. The interdependence and synchronization of all functions as related to selected objectives are represented in the over-all sense by management cybernetics—or, as the Greek word implies, "steermanship", which relates and synchronizes all functional components of the management systems.

To provide for support that is capable of meeting the demand of increasingly complex modern organizational structures, professional specialization becomes inevitable. The problems, being in most cases of a compound nature, can be resolved only by a team approach. Consequently, to avoid "overselling" of individual professions ("overselling" being the tendency of most specialists), it has become necessary to co-ordinate consulting activities by establishing the diagnostic function, which determines the over-all organization needs as related to the interdisciplinary management relationship.

Management consultancy often consists of highly autonomous functions performed by specialists, either independently or in a certain sequence and interrelationship where teamwork is required. Co-ordination becomes a pre-eminent issue. The co-ordination of various professional skills and

resources may be seen as an orchestration of functions, the conductor choosing, synchronizing and directing the various skills and disciplines according to a plan or score. The conductor's intimate knowledge and assessment of the potentials of the various instruments will determine the proper orchestration. The co-ordinating ability of the conductor determines the success of the orchestra, so that this task requires a special talent for appreciating the potentials of individual functions, and an expert knowledge of how these can best be used. However, before one can be a good manager and co-ordinator, he must first know his trade. It is detrimental to management, and particularly to management consulting, to take as manager a man who lacks professional skills and cannot point to a profession he has mastered nor to a master under whom he has served his apprenticeship.

SELECTION OF CONSULTANTS

Management consultants are not required by law to have certain academic qualifications or to pass examinations. Nor does a consultant have to fulfil internship by completing a certain number of cases to prove his ability. Consulting is an open field, and it may be difficult to recognize the best-qualified professionals.

The selection of consultants is a crucial task. The manager or co-ordinator cannot meet his objectives without securing the co-operation of well-qualified individuals, without whom no real progress can be made. Errors in this respect are frequently caused by the inexperience or prejudice of the client or by the inability of the consultant to take an objective view. The consultant has a tendency to see chiefly the problems in his own field of expertise. He becomes a salesman for his expertise rather than a consultant committed to organizational development. At the same time, the client often has a predetermined notion about his own needs and would prefer to hear his side of the problem. It is expected that the consultant and the client will have a geocentric concept of the universe. To eliminate or at least to minimize this shortcoming, the new role—diagnostic or integrated management consulting—provides a connecting link between the client and consultant, to establish the client's needs for the consulting assistance (if any) through a routine check even before serious "ills" appear. Such an objective assessment serves as preventive maintenance for management skills and facilitates selection of the consultants best qualified to resolve the identified problems most efficiently. This diagnostic work is of an interdisciplinary nature and requires high-level professional skills to determine the scope and requirements of the desired consulting work. This evaluation must measure and combine the resources needed to meet the particular demand and must do so by co-ordinating and consolidating the fragmented resources often scattered among numerous smaller firms, thus helping to bring equilibrium between the supply and the demand.

PROJECT IDENTIFICATION AND DIAGNOSIS

The present business and industrial complex presents almost unending opportunities for consulting. These, however, depend on surveys to establish composite information related to the needs. The determination of the nature and scope of the consulting assignment also determines the strategy plan concerned with the integration of management consulting functions.

For the sake of preserving objectivity, the project identification and diagnosis should be performed by an independent body which protects the interests of the client as well as of the consultant. Under these circumstances it may be assumed that:

(a) The diagnostic development of consulting would be particularly beneficial in larger projects of an interdisciplinary nature, whose scope may exceed the resources of the individual consulting firms;

(b) Companies that are in real need of management consulting services are not always aware of their condition or that outside help should be solicited;

(c) Companies that need consulting help may be reluctant to seek it because of built-in prejudice;

(d) Companies undergoing a diagnostic assessment may be provided with advanced warning about adverse conditions before they become too apparent and dangerous;

(e) Companies in need of consulting services may not be able to pay the current rates; costs should be subsidized;

(f) Clients may be distrustful of consultants because of "overselling" of consulting services. Also, without experience, they have difficulties in selecting consultants;

(g) It is becoming apparent that the greatest lack of management services is in the public sector and that more attention should be given to these needs.

EVALUATION AND ARBITRATION

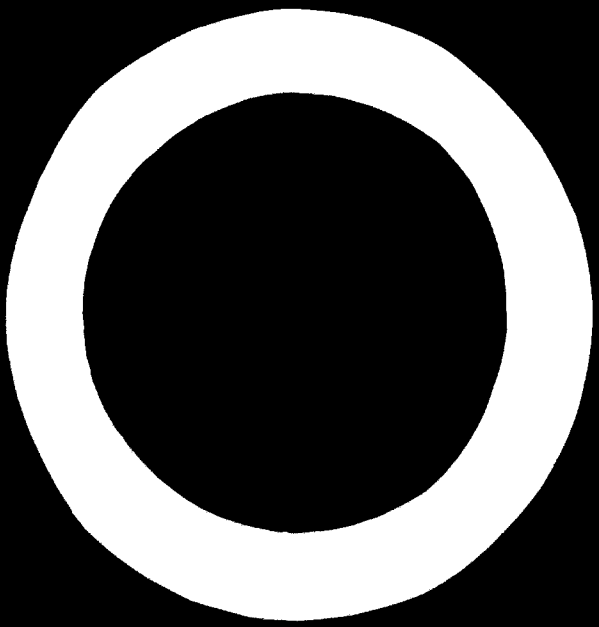
The consulting assignment is not complete until the feedback loop is closed and the diagnostic assessment is compared with the actual results obtained. Corrections may be acknowledged at any phase, but this final comparing of notes is necessary in order to eliminate any disagreements, particularly those that may be bothersome in the consultant/client relationship. The client should be advised whether the objectives of the study have been met. Deviations from the diagnostic study, which become evident during the project execution, must be justified. At the same time, follow-up work may be recommended to the client or the project declared as complete. The results, which reflect the ability of the consultant, should be recorded for future reference.

Payment for consulting work may require very specific knowledge, particularly in international operations. The money to be used, and the fees and out-of-pocket expenses may be considered separately. These matters will depend in part on the place and the law under which the contractual agreement will be binding, also the deposits, instalments, final payments and related conditions. All these must be considered expertly if misunderstandings and litigation are to be avoided.

In case of disagreement between the client and consultant, the interpretation of the original terms of reference should be made by a third party in order to bring about objective and professionally competent mediation.

Part Five

MANAGEMENT CONSULTANCY IN LATIN AMERICA



XIII. THE MANAGEMENT TECHNOLOGY GAP AND THE DEVELOPMENT OF MANAGEMENT CONSULTANCY IN LATIN AMERICA*

The role of management consultants draws on knowledge that ranges from the highly abstract and theoretical to the applied. University personnel are typically interested in and rewarded for contributions to theory; practitioners in business and industry are more concerned with day-to-day applications. A major role of the consultant is to bridge the gap between theory and practice.

Management consultancy is, in a simple definition, the work performed by specially trained and experienced persons to help managers to solve managerial problems. It includes the exercise of objective judgement based on specialized knowledge, skills and techniques. The consultant helps the manager to diagnose problems associated with the goals, strategy, organization, operation, procedural and technical aspects of the institutions of society, then recommends solutions and on occasion helps to implement them. Good consulting service focuses its efforts on improving managerial and economic performance.

The gap between university personnel and the businessman occurs because of the difference in their interests and reward systems. The businessman is interested in solving operational problems, whereas the academician is interested in and has a need to publish papers. These different values and reward mechanisms are the primary factors in creating the gap. The generalized knowledge developed and documented at the university level requires someone to bridge the gap by translating the generalized knowledge into practical application.

Consulting services may successfully combine professional consultants and university personnel in a consulting team, tapping the knowledge of the academic world and combining it with the practical experience of application-oriented individuals.

In addition to the management technology gaps between the university professor and the businessman, the following gaps are found in the business community:

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* This chapter is based on a paper presented to the Santiago meeting by Ernest C. Jewell, Senior Associate, EMSCO Engineering Management Sciences Corporation, Woodland Hills, California, United States of America.

Between companies within a given industry
Between the functional areas within a company—research and development, engineering, production, marketing etc.
Between the different segments of the economy—commercial companies, defence-based companies and government agencies.

The chief contribution of management consultancy has been to help management analyse its problems using the technical skills of the university and recommending practical and timely solutions suited to the client's individual needs. To solve multi-industry problems, it is sometimes useful to organize a team of consultants from outside the consulting firm in order to provide the expertise required for a particular assignment. In one such assignment the consulting firm as the prime contractor provided over-all direction to the project, using the firm's economic analysis and industrial engineering skills, then subcontracted to a wood-products consulting firm the part of the project associated with forest inventories and subcontracted to a mechanical engineering firm the responsibility for physical design of facilities. These combined efforts resulted in comprehensive professional service to the client.

Technological change is the most powerful influence on the business world today, and it poses many new problems for top management. The demand for consulting service arises from the growing burdens imposed on managers by these technological changes. The consultant is a talent broker, who sells technical expertise to bridge the management technological gap.

In bridging these gaps, the consultant becomes a valuable resource to the businessman because of his skills and experience. A consultant who serves many clients often works with situations that may confront a given company only once in a decade. Thus he develops a special talent and is able to maintain his expertise. He learns what problems to anticipate, what actions to take when obstacles occur, and what reactions to anticipate from the individuals involved.

In addition to his broad experience, the professional consultant possesses valuable analytical skills. Although he does not have a monopoly on analytical skills, it is his business to know how to uncover the real issues of a problem and its underlying causes, determine the conditions of its solution and the results to be achieved. A firm can obtain special talents without holding the specialists beyond the period that they are economically useful to the firm.

A third basic value offered by the consultant is objectivity. Because of his independent position, the management consultant can provide a candid evaluation that could not be obtained from an employee within the enterprise, for employees generally tell the boss what he wants to hear. The impartial viewpoint, free from personal interests, internal political loyalties and company traditions, is truly a valuable service. The consultant may even assume the role of the "bad guy", become the scapegoat and thereby reduce the pressure on management.

The impact of the management technology gap is even greater in developing countries than in more advanced economies, since the manager in a developing country has had minimum exposure to scientific management techniques. The author believes and suggests that joint-venture consulting projects, where foreign firms and local Latin American firms join forces, provide the best opportunity to bring about rapid development of skills and reliability in the field of consultancy.

Some of the advantages to bringing foreign firms into joint ventures with Latin American firms are listed below:

(a) To avoid the evolutionary period in management technology, skipping the in-between steps, and to avoid making the same mistakes already made elsewhere in the management and operation of consulting firms and in solving the client's problems;

(b) To obtain the best known state-of-the-art by standing on the shoulders of forerunners in the field. (After the Second World War the Japanese came to the United States Steel Corporation to learn about an advanced steel industry so that they could start from that point. The advantages of this are seen in the dynamic steel industry in Japan today);

(c) To obtain foreign expertise without the cost of foreign ownership;

(d) To allow the foreign expert to teach the local consultant techniques to be applied by local personnel, modifying the application of the technique according to the environmental conditions of the country and culture involved and developing local skills.

Joint-venture assignments should be in effect for at least one year and preferably for three years. The longer engagement helps to overcome cultural barriers. Also, part of the purpose of the assignment is to teach locally the operating techniques of the consulting firm.

How can the management gap be bridged, consulting skills developed and demand for consulting services generated in Latin American countries? These objectives can best be attained by setting up in each country a non-profit organization with the purpose of providing consulting services in joint-venture operations with foreign firms. The non-profit organization can take a variety of forms: the organization may be subsidized by the Government and private companies; or a group of companies in a given industry may support such a programme; or the organization may be supported by some other combination as the banks have done with FICITEC[1] in Colombia. Another approach is a consortium of companies supporting the non-profit organization, or such an organization could be promoted by the United Nations.

Whatever the type of support, it seems clear that a non-profit organization set up by local interest working in a joint-venture relationship with foreign firms can best develop competent consulting skills and bridge the

[1] Fundación para el fomento de la investigación científica y tecnológica.

management technology gap. The best combination of technical knowledge and consideration of local environmental factors can be obtained by an organization that can maintain objectivity and solvency during the infant stage of development of consultancy and generate demand for further consulting services.

XIV. MANAGEMENT CONSULTANCY IN CHILE*

It is not possible to state exactly when management consultancy was first practised in Chile. However, it is believed that it began, to some extent, with the creation, in 1950, of the Institute of Business Organization and Management (INSORA), under the Faculty of Economics of the University of Chile, and with the foundation of the Technical Co-operation Service (Servicio de Cooperación Técnica — SCT) in 1952 as a subsidiary of the Chilean Development Corporation (Corporación de Fomento de la Producción — CORFO).

Thanks to the activities of SCT, there has been considerable growth in consultancy and in training of managers; in the latter, SCT was supported by ICARE (Chilean Institute for Rational Business Administration), which was founded in 1954 as a private association.

The activities of SCT and of INSORA and ICARE have contributed significantly to the increasing numbers of consultants giving service to enterprises in both the private and public sectors, working either individually or in groups. The results, however, have not been encouraging.

In general, it can be concluded that private enterprise appears to have made little use of management consultants in Chile. If the enterprise is fairly large, it obtains such services from its own qualified staff; if the enterprise is small, it simply ignores the consultants or else applies for help to governmental institutions such as SCT. In addition, consulting activities in Chile have been limited rather to certain types of engineering, mainly civil engineering. Through the years, most of the contracts have been awarded to foreign firms.

The principal problem in Chile, as in many Latin American countries, is attributable to the fact that the industrialist himself is not convinced or even conscious that his difficulties arise from bad management; he attributes them to external factors, such as lack of credit, the pressure of taxes and high wage rates.

It is not known whether any studies in depth were made on aspects of management consultancy before 1969, when work on productivity

* This chapter is based on a paper presented to the Santiago meeting by Ramón Aguado-Jou, UNDP/ILO Manager of the small and medium-scale industries development project in Chile.

previously entrusted to SCT was handed over to sectoral bodies. For industry, the responsibility fell to CORFO, acting through its division for productivity and technology.

THE TECHNICAL CO-OPERATION SERVICE

In 1951, an agreement between the Governments of the United States of America and Chile laid the basis for SCT. When SCT was set up in 1952, it was entrusted with functions which probably belong to a productivity centre, for example, the giving of technical assistance to industry, mining and agriculture, with the objective of obtaining a higher level of productivity. It was also intended to spread the knowledge of modern techniques of management and production so as to raise the general standard of living of the population.

Until the middle of 1967, SCT directed its activities primarily to advancing productivity in medium-size and large businesses, while through its specialized departments it provided management consulting services. The management consultancy was, however, subordinated to some extent to training programmes and sectoral studies. What can be considered important is the training and the internal instruction of SCT's own engineers and economists, the result of which was the establishment of groups of private consultants or individual consultants.

SCT can be considered a "generator" of management consultants, for this is a function it has successfully fulfilled. Most of the consultants who have set themselves up in business or have acted in one way or another on a part-time basis have had their training and education from SCT and have continued to maintain close connexions with that body.

In 1967, SCT acquired a new meaning through the creation of the Small Industries Division and the initiation of the UNDP/SF project, with ILO serving as executive agency. As a result, SCT put greater emphasis on assistance to small industry, and, when it was reorganized in 1969, consulting activities to large industry and the training of executives were discontinued on the ground that other public and private bodies were working on parallel lines. At the same time, the work of the sectoral productivity projects was passed over to bodies that had been created at the national level to stimulate the growth and development of the sectors.

From that time, SCT gave highest priority to small and artisan industry, while CORFO took charge of activities affecting productivity and consultancy for large and medium-size business, acting through its Department of Productivity and Quality Control.

From 1967 to 1970, SCT did not, however, abandon management consultancy or the training of executives; this work continued but was concentrated on small industry. (Small industry is defined by SCT as including firms with up to 50 employees and a specified maximum investment in machinery and equipment.)

THE IMPORTANCE OF MANAGEMENT CONSULTANCY IN CHILE

When responsibility for management consultancy and industrial productivity was transferred from SCT to CORFO, the Productivity and Technology Division of CORFO aimed at establishing an infrastructure to enable private industrialists to improve the internal productivity of their firms. As part of this infrastructure, CORFO established a line of credit for executing studies in productivity and/or quality control.

It became necessary also to establish a register of consultants. For this CORFO used a questionnaire, emphasizing that its survey was not limited to management consultants, but covered also consultants in fields such as industrial engineering, agriculture and mining, and included sectoral studies, feasibility studies, market studies and other projects. The questionnaires were sent to 51 consulting firms, but data were obtained from only 27. The information gathered was analysed from various angles, i.e. the size of consulting enterprises, the importance of assignments accomplished, the volume of work carried out, the main areas of activity and participation by the public sector.

By size, consulting enterprises in Chile may be classified as follows:

Size of consulting firms	*Qualified full-time staff*	*Enterprises*		*Personnel*		*Advisers*
		Number	*Per cent*	*Full-time*	*Part-time*	
Small	Up to 3	13	48	21	20	79
Medium	4 to 9	10	37	50	10	130
Large	10 or more	4	15	71	5	39
Total		27	100	142	35	248

The volume of work done, according to the reports of the firms that responded to the questionnaire, is detailed below.

Importance of assignment (professional man-months)	*1967*		*1968*		*1969*	
	Number of assignments	*Index number*	*Number of assignments*	*Index number*	*Number of assignments*	*Index number*
Low (up to 3)	62	100	100	161	144	232
Medium (4—35)	31	100	32	103	73	235
High (26 or more)	37	100	100	270	179	483
Total	130	100	232	178	396	304

From the answers to the questionnaire, it was not possible to draw quantitative conclusions with respect to the main areas of activity of the firms, but it became clear that most of the firms were working in engineering fields rather than in management. About 26 per cent of the consulting assignments were in the public sector; these assignments involved 58 per cent of the total professional man-months of consulting services.

The conclusions of the CORFO survey show that management consultancy requires the establishment of order and a clear national policy, mainly because consulting firms are scattered, formed only recently and poorly organized, and because many of them use part-time professional staff. Although the demand from the public sector is important, this sector rarely uses the services of management consultants and gives preference to other types of specialists.

SUGGESTIONS FOR THE PROMOTION, IMPROVEMENT AND EXPANSION OF MANAGEMENT CONSULTANCY IN CHILE AND LATIN AMERICA

Strengthening management consultancy at the national level

It is clearly necessary to try to improve and expand management consulting services, for the reason that consultants can do a great deal to accelerate the process of industrialization. The lack of capital resources in Chile, and in Latin America generally, is not as serious as is frequently thought. In many cases, there are outstanding possibilities of credit unused for lack of projects, and what is more, for lack of entrepreneurs and of adequate managerial capacity. This deficiency can be made up through the use of good consulting services in a country.

In general, it is thought more appropriate that the Governments of developing countries should try to encourage private consultants in preference to creating their own consulting services. A centre or institute of productivity should serve as a kind of clearing-house for the consultants it supports and assists.

To expand consulting services, it is not enough to increase the degree of training of consultants, or to give the consultants certain facilities that will enable them to establish themselves. The most important factor without any shadow of doubt is that the industrialists should use the consultants. What must be done, therefore, is to formulate a policy that will facilitate and encourage the use of consultants by industry. The "selling" of management consultancy to industry has to be stimulated. The Government must not compete with groups of consultants that are already organized; on the contrary, it must complement their activities.

Both CORFO and SCT have the resources needed to promote the demand for consultants from industry. This is especially true of CORFO, which has the right to grant certain exemptions over and above the valuable tool of industrial credit. Since CORFO is the Chilean Development Corporation, it falls to CORFO to lay down the policy and build the programmes that would help in the development of consultancy. CORFO could seek international co-operation, either multilateral (UNDP) or bilateral. The content of these programmes should be focused on three areas: credit for productivity; register of consultants; and training and development of consultants.

Credit for productivity

CORFO's productivity credit has been little used. It would be appropriate, therefore, to establish new lines of credit for the encouragement of consultancy, or perhaps for the improvement of the effectiveness of the consultancy that now exists by widening the field of action. Publicity campaigns should inform industrialists of the existence of these lines of credit and so encourage their use. Regarding the normal credit for equipment or working capital, it would be desirable if CORFO were to demand a productivity study or a diagnosis before the credit was granted.

It would also be desirable to establish a system of credit that could be used to encourage collective action in the grouping of large and small firms. This work would need the collaboration of SCT. Finally, CORFO would have to be able to call on the services of a group of consultants competent to carry out diagnosis or pre-diagnosis as the necessary condition of granting credit for productivity.

The register of consultants

So that firm guarantees can be given to enterprises using the services of consultants, a register of consultants should be set up to include not only management consultants, but also consulting firms whose subjects are civil engineering, marketing, feasibility studies etc.

To appear in the register, the individual consultants or consulting firms would have to fulfil certain requisites, in addition to submitting to a qualifying process which could be checked from time to time. The register should not be a simple list of firms or individuals who volunteer to put down their names.

It is not intended that the register become a sort of consultants' association to be handled by CORFO or other governmental institutions. The registry should make recommendations to its clients, but not supervise their actions. CORFO would present the list of the consultants' organizations with their terms of reference, qualifications and specialized capacities. They would be careful not to interfere in the commercial aspects of the deal between the clients and the consulting firm. The selection and decision would be left to the firm contracting the services of the consultants.

Admission to the register would be subject to the proof of the qualifications of the organization concerned, and it would be necessary to set up machinery for expulsion or elimination from the register if the conditions laid down were not complied with.

Training of consultants

In Chile, a comparatively large number of consultants lack training and experience. There is a great danger that the profession will fall into disrepute for this reason and discourage industrialists from using consulting services. It follows that any policy for the encouragement of consultancy must take into account the training and the higher education of consultants.

The most important approach would be to develop courses or activities of higher education, rather than training as such, for the training of a consultant is inconceivable if the individual does not have a university career or its equivalent as a basis. The courses would have to be intensive and of adequate duration for proper mastery of the subject; they should also be eminently practical, covering not only the work of consultancy in the strict sense, but also methods of operating and administering a firm.

Tentatively, the subjects to be taught would include:

Pre-diagnosis and diagnosis of enterprises
The organization of consulting services
How to act as a consultant (professional rules and ethics)
How to prepare and calculate management consulting budgets
Training of other consultants

CORFO could organize courses for consultants and could use for the purpose the resources already available in Chile, including those of ICARE, INSORA and SCT, but it should seek foreign assistance for the more difficult subjects.

Strengthening management consultancy at the regional level

In practically every country of Latin America, firms in the private sector, regardless of their difficulty or the nature of the service they seek, give first preference to consulting firms from the more developed countries. This may be attributed largely to lack of confidence in many of the national consulting firms, and to the obvious inadequacy of their organization. The CORFO study referred to earlier shows that four contracts executed by foreign firms were awarded by CORFO itself. Many of the contracts with foreign companies use a high percentage of qualified staff of local origin because of their comparatively low cost.

Two proposals are presented here to improve this situation: a Latin American consortium of consultants and an exchange of Latin American consultants.

The feasibility of a consortium of consultants

The creation of a multinational firm of consultants at the regional level does not appear to be feasible, for it would be expensive and difficult to finance, and it would also be hard to operate in practice. A consortium or association would probably be a more rational basis for bringing the countries of the region together. It would add to the prestige of the consortium and make it more acceptable to public and private enterprise if it were allied with consulting of note from outside Latin America.

Consulting services would then be available at three levels. National consultants could serve in those jobs for which they were technically fitted. In uncommon, specialist jobs, or where suitable qualified consultants were

not to be found in the country, a request for services could be made to the regional consortium; and, as a last resort, one could look for help to consulting firms in the highly industrialized countries. In any event, a project of this sort should be studied with great thoroughness. For this, one might seek the technical assistance of UNDP, UNIDO and ILO and consider the possibilities of financing by the World Bank.

Proposal for a Latin American management consultants' exchange

A proposal that might be developed with comparative speed and that might have immediate success would be the creation of a Latin American exchange for management consultants. This exchange would be a sort of registry of consultants, similar to the one suggested at the national level for CORFO. Unlike the consortium, the Latin American exchange would have no economic connexion with the consultants or consulting firms that joined it, but would offer its service to firms wishing to commission consultants.

Strict conditions would be laid down for registry in the exchange, in order to permit it to represent foreign consulting firms that might be interested. It would be absolutely necessary to insist that consultants meet certain qualifications as a condition of registry.

The exchange should have an office in every country of Latin America and a minimum central staff. It should carry not only a register of general details, but also the data to show the capacity of every firm, including the number of qualified staff and the workload. The manager or the executives of the exchange ought to travel frequently so as to maintain personal contacts and keep the register up to date. The exchange would be a highly useful instrument in promoting the use of consultants.

Such an exchange would be preferable to the consortium proposed above, and could be the first step towards the formation of a consortium. It could be staffed by international technical aid, and financed as a project of the UNDP, the executing agency being UNIDO or the ILO or both.

The Governments of the region should be asked to give priority to their own national consulting firms. They could always rely on the support of the exchange, since membership in the exchange would be a guarantee of technical competence.

XV. THE DEVELOPMENT OF INDUSTRIAL CONSULTANCY IN COLOMBIA*

Industrial development in Colombia originated in the family enterprise, which was managed on the basis of the empiricism, intuition and experience of the owners. This situation began to change when the entrepreneurs encountered problems for which neither their experience nor their intuition offered an adequate solution, whereupon the need for experts and consultants arose. In most cases, these experts were friends in the industrial sphere or politically prominent in government affairs who placed their experience and judgement at the service of the entrepreneurs who called on them. Their role appeared to be more that of advisers than of professional consultants in the strict sense of the term.

Industrial engineering

Later on, with the advent of professional consultants, both domestic and foreign, specializing in the various areas of industrial engineering, and with the establishment of faculties and schools, industrial consultancy began to be used in a genuinely technical and systematic manner, particularly in large textile enterprises, which commissioned studies on wages and incentives, time and motion, methods analysis and work simplification, production process design, plant distribution, administrative controls, increased efficiency etc. The idea of productivity began to become popular, and belief in the need for and value of professional consultancy gained ground. During this period, one of the foreign firms deserving mention was Burlington, which worked in particular with Fabricato, one of the largest textile enterprises in Colombia, which commissioned time and motion studies. Since this type of consultancy was directed in particular towards obtaining improved and increased production, it provoked some resistance to the changes being attempted, and labour conflicts ensued. The trade unions, in an effort to increase their own prestige and solidarity, tried to

* This chapter is based on a paper presented to the Santiago meeting by H. Plazas Dennis, Psychologist on the staff of ICOLDA, the Colombian Institute of Management, Bogotá, Colombia.

capitalize on the difficulties and create a cleavage between management and labour. From this experience, industries became aware of the necessity of paying greater attention to the "human problem", and a new phase of industrial consultancy began, with more emphasis on labour relations. Domestic and foreign firms offered varied types of services for improvements in entrepreneurial motivation, the mystique of work, inter-personal relations, administrative communications etc. The period was marked by increased emphasis on human relations, both in consultancy and in training.

ECONOMICS

There was a very marked tendency in Colombian industrial organizations at one time to balance the needs of the organization and the needs of the individual in the belief that the inevitable conflict between individuals and production would thereby be solved and the much desired "organizational balance" would be achieved. This tendency was, of course, more common in traditional and conservative enterprises, since all they were seeking was equilibrium and stability. None the less, many organizations realized that the future, in particular the economic future, was of paramount importance, and they began to seek specialized consultants for economic planning and feasibility studies as a basis for obtaining sources of credit and finance. In most cases the enterprises had to look for outside experts. Some economists helped enterprises to establish their economic planning departments and train their own staffs in this type of activity, and at the present time this type of consultancy is among those most sought after.

FUTURE PROSPECTS

On the basis of the history of consultancy in Colombia, and in view of the current situation and the country's actual and potential requirements, it may be expected that the next period of management consultancy development will bring:

(a) Promotion and stimulation of consultancy in organization development and specific areas;

(b) Promotion of interdisciplinary consulting teams;

(c) Encouragement by universities of enterprises and decentralized government institutes to enable students to obtain actual practice in consultancy for at least one semester of their university career.

Through these stages, it is to be hoped that the industrial consultant will become the true agent of change and an effective aid to development.

RECOMMENDATIONS

The following are specific recommendations for the advancement of management consultancy in Colombia:

(a) Support of the development of private consultants;

(b) Exchange of consultants among countries with the same development potential;

(c) Financing of two- to three-week trips, at least twice a year, for private consultants to refresh their knowledge of techniques and their general information on consultancy;

(d) Financing of the training of new consultants, both domestic and foreign;

(e) Foundation of a review or publication to circulate news and the latest information on the various aspects of consultancy.

XVI. THE DEVELOPMENT OF MANAGEMENT CONSULTING SERVICES FOR INDUSTRY IN URUGUAY*

In Uruguay, consulting services for the management and administration of enterprises can be from two sources: the Productivity Centre of Uruguay (CPU), a semi-public institution; and various private consulting firms. The two groups follow different approaches in their work. The Productivity Centre is the executing agency for development plans at the macro-economic and micro-economic level, has fixed priorities and carries out programmes that are not self-financed or only partly so. Private consulting firms are governed by the economic principle of profit making. Two of these firms can be said to be of international origin, there being also approximately eight or ten groups of professional consultants working in the form of an organized enterprise, most of them part-time. In addition, certain professional consultants work sporadically in business administration and management.

The Productivity Centre of Uruguay

The establishment of CPU dates back to 1963, when an executive decree established the National Honorary Productivity Commission, which consists of representatives of the Executive, employers and university and professional associations. The Commission in turn set up CPU, defining its responsibilities and powers as follows:

(a) To advise the Executive, with the aim of increasing national productivity at the enterprise level;

(b) To advise established and projected industries on achieving the highest degree of organizational and technological development;

(c) To train managers and executives in the techniques of management and the fundamentals of technology.

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* This chapter is based on a paper presented to the Santiago meeting by Bernhard G. Wittich, manager of the ILO/UNDP consultancy and industrial development project for the Productivity Centre of Uruguay.

CPU is at present working on an annual budget equivalent to approximately US$300,000 (66 per cent self-financed) and has a staff of approximately 80, of whom 52 are consulting technicians, assigned to general business management, marketing, production (engineering, footwear, textiles, foods), economics and finance, personnel administration and training and agro-industrial functions.

CPU has received technical assistance from the United Nations through various missions, especially those of UNIDO and ILO. In 1964, an expert was assigned to give guidance to the Centre in its first steps. Later, through technical assistance missions and others of wider scope, the United Nations continued to extend assistance, sending a textile expert in 1966 and three expert missions in 1967 and 1968—one in productivity, one in aspects of economics and the third in food.

In view of the highly satisfactory results achieved by CPU through the co-operation of national and international technicians, the Government of Uruguay requested UNDP/SF to set up a project of broader scope, including the services of experts in marketing, industrial engineering, economics and finance, footwear technology, industrial psychology, textile technology, leather technology and assistance to small-scale industry.

The first phase of the project was concluded in 1972 and UNDP/SF is expected to advise CPU in its second phase during 1973 and 1974. The purpose of the present project is to establish an industrial consultants' service in CPU with respect to organizational structure, programmes and the training of personnel.

Policy and activities of CPU

The basic policy of CPU sets the scope of its activities as follows:

(a) Technical assistance should be directed towards the most representative industrial branches of the country;

(b) Problems of enterprises should be dealt with at the highest possible level and as comprehensively as possible;

(c) All services should be made against payment so as to achieve the greatest possible degree of self-financing of CPU;

(d) The programme should consist not only of consultancy as such but should also be directed towards the training of managers and executives in industry.

CPU has a broad range of activities, as described below. It offers the following technical assistance services:

(a) Orientation studies for the Executive. These studies are mainly sectoral studies of the various enterprises in the sector, for the purpose of guiding the Executive in taking corrective or precautionary measures;

(b) Job evaluation. CPU serves as a technical adviser to the Executive, i. e. to the Ministry of Labour and Social Security and to the Price and Wage Control Commission (COPRIN). The object is to recast the wage structure at the national level. The joint committees (Comisiones paritarias) are collaborating in the evaluation. At present, roughly 35 per cent of all employed persons in the country are covered by the study;

(c) Export pre-financing programme. CPU gives technical assessment services to a ministerial committee to define the amounts and duration of credit to be granted. Once the credit has been granted, CPU makes a diagnosis of the requesting enterprises in order to make recommendations for improving the productivity of the exporting enterprises;

(d) Direct consulting services. These services are given at the request of the enterprises themselves and consist of the classic phases of consultancy, namely: diagnosis, reorganization studies, establishment and follow-up;

(e) Feasibility studies. CPU carries out feasibility studies on new industries to define the preliminary project and prepare the detailed and final project. Aid is subsequently given on installation (at the request of investors).

CPU offers an intensive training programme for business managers and executives to offset the great scarcity of well-trained personnel in the enterprises. The wide experience passed on by the consultants is then pooled through meetings, seminars and eminently practical courses, for example:

(a) Lectures are given to industrial or trade union representatives, generally at a high level;

(b) Round-table discussions, symposia and seminars, generally at a high entrepreneurial or trade union level provide information and training and promote the activities of CPU;

(c) Training courses for managers, executives or trade union leaders are organized.

In general, CPU can be said to have advanced considerably in all aspects of its programmes. Both the theoretical programmes and those with a direct effect are creating an open-minded attitude among the country's industrialists. CPU is well endowed with technical skill and enjoys absolute confidence in entrepreneurial and government circles. Its consulting and advisory activities in the period 1964—1971 are shown in table 1.

The extent of the training activities of the Centre in the same period is indicated in table 2. Up to 1968, 50 per cent of the courses were on public administration. Since then, a separate industry programme has been held.

TABLE 1. CONSULTING AND ADVISORY ACTIVITIES OF CPU, 1964–1971

(Number of activities)

Type of activity	*1964*	*1965*	*1966*	*1967*	*1968*	*1969*	*1970*	*1971 (estimate)*
Diagnosis				1	14	26	35	40
Studies on reorganization			4	8	13	14	26	40
Implementation of reorganization measures			2	5	7	9	15	25
Study of preliminary projects for new enterprises					5	6	1	n. a.
Studies of projects for new enterprises				1	3	4	3	n. a.
The installation of new plants and/or expansion of existing plants					1	1	4	8
Advisory studies for the Executive				1	2		3	6
Job evaluation (by sector)				1	1	1	7	10
Studies on pre-financing of exports						53	52	70
Studies for the reorganization of public bodies		3		6	6	4		
Total number of consulting activities		3	6	23	52	118	146	199

TABLE 2. TRAINING ACTIVITIES OF CPU, 1964—1971

(Number of programmes/number of participants)

Type of activity	*1964*	*1965*	*1966*	*1967*	*1968*	*1969*	*1970*	*1971 (estimate)*
Lectures				1/20	2/30	6/240	9/691	20/1,000
Round-table discussions, seminars and symposia					4/96	7/125	13/176	18/195
Training courses	2/50	5/75	8/121	11/146	4/107	12/167	19/220	44/560
Total number of activities	2	5	8	12	10	25	41	82
Total number of participants	50	75	121	166	233	532	1,087	1,755

The training of consultants in CPU

The CPU staff working in consultancy and in the training of business managers and executives is recruited entirely from professionals, economists or engineers with previous experience in industry. The policy has been to select staff who would stress the stimulation of national development above the economic requirements.

Once recruited, the staff receives continuous training through the technical assistance project of ILO and from the consultants who are already more advanced. The training includes:

(a) Internal courses in the speciality of each consultant;

(b) Internal interdisciplinary courses (business administration) to give an understanding of the general structural problems of an enterprise;

(c) Instruction in consultancy and personnel training, the responsibilities of the trainee being gradually increased;

(d) Fellowships for three to six months' study in an industrially advanced country, permitting the consultant to understand not only the technical aspects of his special field but also to appreciate the social and human environment in the country to which he is sent. Each fellowship holder is sent to a different country (e.g. the European countries, the United States, Israel and Japan) in order to provide for Uruguay as much and as varied experience as possible.

In these ways consultants accumulate valuable experience and share it with others, some of them becoming specialists in the particular areas required by the training and consulting programme.

Further programmes under consideration for the consulting service of CPU

An analysis of the consulting service and its activities would not be complete without mention of future activities that are now taking concrete shape, including the following:

(a) Measurement of productivity, as a means of information for the Executive and CPU as well as for the enterprises themselves;

(b) Studies of the needs of industrial sectors of the economy, including research on the technological, organizational, financial and marketing situations;

(c) Feasibility studies on investment projects through the investigation of new possibilities, and distribution of the resulting information to interested investors;

(d) Documentation of all information possible on aspects of general economics, business management and technology;

(e) Technical supervision of credits for industrial investment;

(f) Industrial decentralization through the establishment of industrial parks in the interior of the country;

(g) The promotion of small-scale industry, through assistance on matters such as management, technology, supplies and sales, financing and the establishment of a suitable infrastructure;

(h) The promotion of consultants associated with CPU, i.e. private consulting enterprises to be trained and to provide specific consulting services in co-ordination with CPU;

(i) The training of technologists, above all the training of supervisors and foremen in various industrial branches, through courses in theoretical subjects;

(j) The co-ordination of all programmes for the training of managers and executives in the country other than university graduates. At present this is being carried out independently by some private institutes.

FACTORS LIMITING CONSULTING ACTIVITY

Certain difficulties frequently encountered in the implementation of the various consulting activities impede their rapid and efficient development.

When technical assistance programmes were begun in Uruguay, in 1966 and 1967, there was a profound crisis in the entrepreneurial-industrial sphere caused by inflation and devaluation of increasing intensity. As a consequence, the attention of entrepreneurs was directed only towards avoiding loss of value of their corporate assets; in most cases they sought speculative gains rather than profiting through favourable costs in reference to market prices. Following action by the Government, these conditions improved, and from 1969 on there has been a more favourable economic situation. However, certain factors still hamper existing industries or delay the establishment of new industry, namely:

A lack of confidence in the future of the country
Scarcity of financial resources
Bureaucracy
Non-fulfilment of the development plan
Unsuitable industrial development legislation
Inadequacy of institutions for the training of skilled industrial personnel
Limited markets
Lack of suitable organizational structures, and doubts of entrepreneurs regarding their necessity
Obsolete, antiquated and uneconomic installations
The lack of technical personnel, and doubts of entrepreneurs as to the need for such personnel
Low productivity
Instability in relations between the Government, the workers and the employers

For a long time attempts have been made to approach development exclusively through the impetus given by more advanced technology or

greater financial resources. However, development is deeply affected by the human factor. Thus, personal motivation, employer-employee relations and human relations in general play an important role in development.

In the future it will be necessary to devote much more attention to the many human considerations affecting development.

CONCLUSIONS

The existence of a sufficient number of business management consulting firms undoubtedly implies a strong development impact on an economy, and can be taken as an indicator of development. Conversely, the non-existence of such advisers may be taken as an indicator of stagnation or even regression. It is therefore in a country's interest that a corps of business management consultants be developed to speed up the process of economic advancement. However, it is possible to achieve a satisfactory structure of consulting firms only if there is an adequate demand for them in the country. In the vast majority of Latin American countries this demand does not exist, although consultancy is needed.

Institutions such as Uruguay's CPU should not be a substitute for consulting firms in the developing countries. A centre for development and productivity should have the role of a pioneering institution, opening the way to conditions that will increase the demand for management consulting enterprises.

A developing country in which there is a need for management consultancy but not the corresponding demand may go through the following phases:

(a) A development and productivity institution should be set up as a pilot establishment to start the technical assistance and consulting work and convince entrepreneurs of their utility;

(b) The development and productivity institution should turn more and more towards work of broader scope, such as studies at the sectoral or national level with a view to determining the possibilities for development of the various sectors;

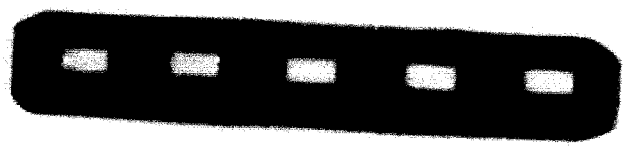
(c) In the light of its research, the institution should carry out a series of advisory programmes at the multi-enterprise level for the training of personnel and the promotion of a suitable infrastructure through which it will be possible to obtain an optimum multiplier and economy-promoting effect;

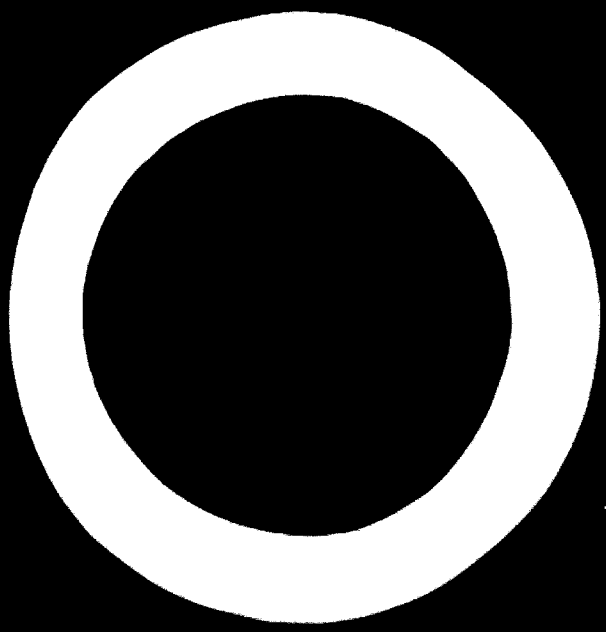
(d) When the needs have been ascertained, the institution should promote individual consulting activities;

(e) Jointly with other national institutions—universities etc.—such an institution should promote programmes for the training of consultants;

(f) Independently, arrangements should be made for a Latin American regional structure to be responsible for linking specialist consultants in one country with the existing demand for consulting services in another.

Through these various stages, one can see the possibility of promoting management consulting services in the Latin American countries, especially in those in which the use of consultancy by enterprises has not been common up to now. Uruguay has begun this process, and the possibilities for success in the future are manifold.





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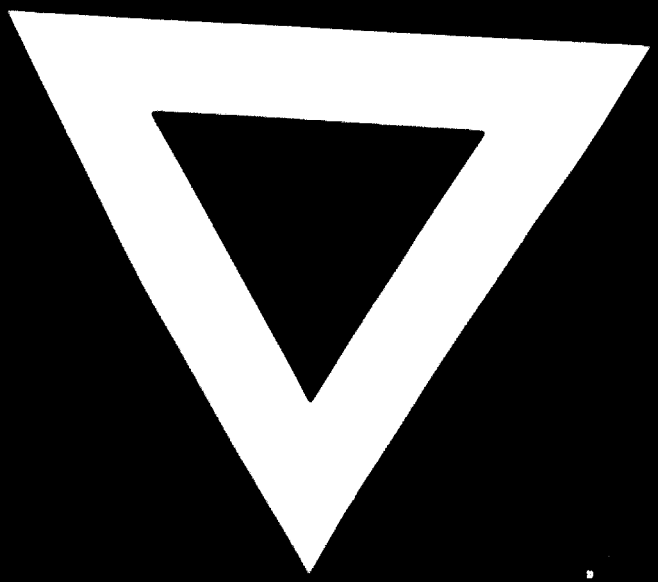

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