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**THE INTERNATIONAL TRANSFER OF INDUSTRIAL MANAGEMENT SKILLS ✓**

**An Agenda For Action**

**prepared by**

**William R. Millager  
Acting Head  
Factory Establishment and Management Section**

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## 1. Introduction

The chances for an industrial investment project to be successful are largely determined at the time the relevant implementation agreements are signed. To increase the probability of success much attention is currently being given to investment promotion and the transfer of technology. Equally important, but so far less intensively explored is the transfer of management skills.

UNIDO has long been cooperating with Governments in this field. But a new initiative is underway which - together with other programmes - can lead to greatly increased economic and social benefits from the immense resources being committed to industrialisation. This paper explains the basis for the initiative and presents a preliminary outline of a 1978-79 work programme.

## 2. "Management Transfer" is a Priority Need for Industrialization

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

The Lima Declaration calls for relevant actions under sections covering "Measures of national scope", "Cooperation among developing countries", and "Cooperation between developing and developed countries"<sup>/1</sup>

The report<sup>/2</sup> of the Intergovernmental Expert Group Meeting on Industrialization of the Least Developed Countries (held in Vienna during November 1976) cites the importance of management in many of its recommendations. The Expert Group called for UNIDO cooperation in, i.e., development of special contracts to facilitate beneficial establishment of factories on a turnkey basis; creation of industrial consultancy services integrating management with technical and banking elements;

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

<sup>/2</sup> ID/WG.234/13, 5 January 1977

as well as urgent development of industrial accounting systems and skills. It also emphasized <sup>/1</sup> that availability of organisational and management skill is essential to ensure the success of industrial projects selected as prime-movers for "diversified development of the national economy".

A meeting of Top-level Industrialists on Factory Establishment Projects in Developing Countries was held in Vienna concurrently with the LDC meeting. The meeting <sup>/2</sup> formally adopted a number of suggestions to UNIDO for actions to further develop its cooperation programme.

The following extracts <sup>/3</sup> are most relevant to the transfer of management issue:

- "Provide intensive assistance through development and implementation of pilot methods and projects, emphasizing countries most needing assistance and generally applying methodology [such as the following]:
  - ....
  - (b) Provision of a project coordinator and/or a specialised technical and management advisers to a new enterprise during planning, construction and start-up of operations.
  - ....
  - (d) Advice on negotiating contracts for the acquisition of specialised technological and management know-how without unnecessary concessions.
  - ....
- ".... When foreign partners are involved, UNIDO should strive to promote co-operation leading to mutually beneficial project agreements and implementation. UNIDO should identify obstacles to increased technical and economic co-operation for accelerating factory establishment and take appropriate action to overcome them.

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

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

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

- "Finances available for pilot projects should be enhanced to make the projects a show window for both local and outside parties. Case studies and manuals based on the projects should be widely circulated to increase the multiplier and snowball effect. Also other manuals and cases should be prepared by UNIDO to expand and/or better utilize existing production capacities of the developing world.
- UNIDO should play an active role in helping medium [size] companies of industrialized countries to release their technological and human potential for the benefit of local prospective entrepreneurs in developing countries."

As mentioned in Section 1 relatively little attention has been paid to management transfer as compared with technology transfer and investment promotion. Relevant current articles of an operational nature seem to be written for the nearly-exclusive benefit of the foreign participant. Sensitivity to developing countries' problems and aspirations as well as awareness of industrialization as an integrated and inter-related process seem to be lacking. A notable example of a positive contribution, but apparently one of a rare breed, is a ten-year old book, "The International Transfer of Corporate Skills"<sup>1</sup>

### 3. Examples of Opportunities for UNIDO Cooperation for Management Transfer

As indicated in Section 1 UNIDO has cooperated with Governments for some years to achieve transfer of management skills on equitable terms. UNIDO experts associated with technical cooperation projects in the field of industrial investment projects often advise their host organizations concerning terms and conditions of proposed agreements for acquisition of management services. UNIDO staff members<sup>on</sup> short-term advisory missions and Senior Industrial Development Field Advisers also provide ad hoc advice based on their own knowledge and experience.

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<sup>1</sup> Gabriel, Peter P. - Doctoral Dissertation published by Division of Research Harvard University School of Business Administration

But as the pace of industrialisation advances, the quantities of money and other resources committed to industrialisation increase geometrically. Consequently, the opportunities for UNIDO-Government co-operation to achieve substantial savings of money and time, or increases in project benefits to national economies, are enormous. Four examples of recent requests to UNIDO are cited below to illustrate the urgent need for further strengthening UNIDO's operational technical assistance capability in this field.

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

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

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

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

Upon examination UNIDO found that the proposed terms of these interlocking contracts would severely limit the 'advantages of industrialisation' available to the host country. For example:

- Turnover of responsibility to qualified national staff would be many years in the future, if ever. Management training provisions were extremely vague.
- Product design was to be rigidly controlled by international headquarters even though exports of the product were forbidden, thus severely restricting subcontracting to other local industries.

- The foreign firm had an effective veto on nearly all management decisions and was to be exclusive supplier of most production materials at unilaterally set prices.
- The proposed management fees would equal the foreign firm's investment in a few years.

The draft agreements were also notable for some omissions. For example, the foreign firm accepted no responsibility in the fields of marketing or of product services (repair and maintenance) which is obviously a critical function in this case.

Example Case No. 2: Establishment of A Fertiliser Factory

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

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

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



Example Case No. 4: Management of Existing Factories

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

UNIDO is confident that these sample cases reflect only a fraction of the opportunities for joint Government-UNIDO cooperation which can progressively save millions of dollars and increase economic and social benefits resulting from industrialization.

4. Both Host Country and Foreign Participants Benefit from Management Transfer

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

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

the interests of the foreign participants.

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

#### 5. Outline of UNIDO Co-operation Programme

It is UNIDO's premise - as briefly illustrated in the previous section - that management transfer agreements can be made much more efficient in contributing to self-sustaining industrialization and eventual managerial self-reliance of the host country without becoming unacceptable or unattractive to serious prospective foreign participants. UNIDO proposes to help speed achievement of the potential gains through a programme of development, information and consultancy services. The programme is designed to function at the level of national actions as well as through co-operation among developing countries and co-operation between developing and industrialized countries. It is closely coordinated with UNIDO's programmes in transfer of technology and investment promotion.

The long-range objective of the programme is to help both developing and industrialized countries to increase the efficiency of the transfer of management process so that establishing new factories does in fact create the desired economic and social benefits. To this end special attention will be paid to the integration of management transfer with technology transfer, investment promotion and other necessary elements.

The medium-term objectives of the programme are:

- 1) to strengthen the capability and self-reliance of responsible officials in developing countries to define requirements for, negotiate, and obtain full benefits from the execution of agreements with foreign suppliers of the range of management services associated with industrialization, emphasizing their essential integration with corresponding technology transfer and investment aspects; and
- 2) to assist prospective foreign suppliers of such services to understand the special conditions and development objectives of the host countries and to prepare agreements which facilitate the application of their respective skills for enhanced economic and social benefits to the host country while maintaining incentives for their own participation.

Briefly, the programme on the International Transfer of Industrial Management Skills includes three elements as follows:

- (a) Development of Cases, Guidebook, Sources of Information <sup>1</sup>
- (b) Joint Consultative Meetings and Symposia to disseminate information and share experiences
- (c) Creation of a Consultancy network, pilot application of results, and eventually a Referral Service

The Factory Establishment and Management Section has undertaken preparatory work related to the above and cooperates with other UNIDO sections - especially the Section for Development and Transfer of Technology and the Industrial Cooperative Programme Office. Utilising available internal funding and

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<sup>1</sup> UNIDO has published some manuals on programming, contracting, and monitoring the acquisition of equipment and construction of new manufacturing facilities. There is also a manual on technology licensing as well as one on subcontracting. The only publication which includes the acquisition of industrial management services is the "Manual on the Establishment of Industrial Joint Venture Agreements in Developing Countries" which was published in 1974. There is a great need for updating and extending coverage of this field in an integrated manner to strengthen developing countries' self-reliance in establishing economically and socially viable new industries.

voluntary contributions, a modest programme of international meetings and publications has been underway for several years and is increasingly devoting attention to this subject.

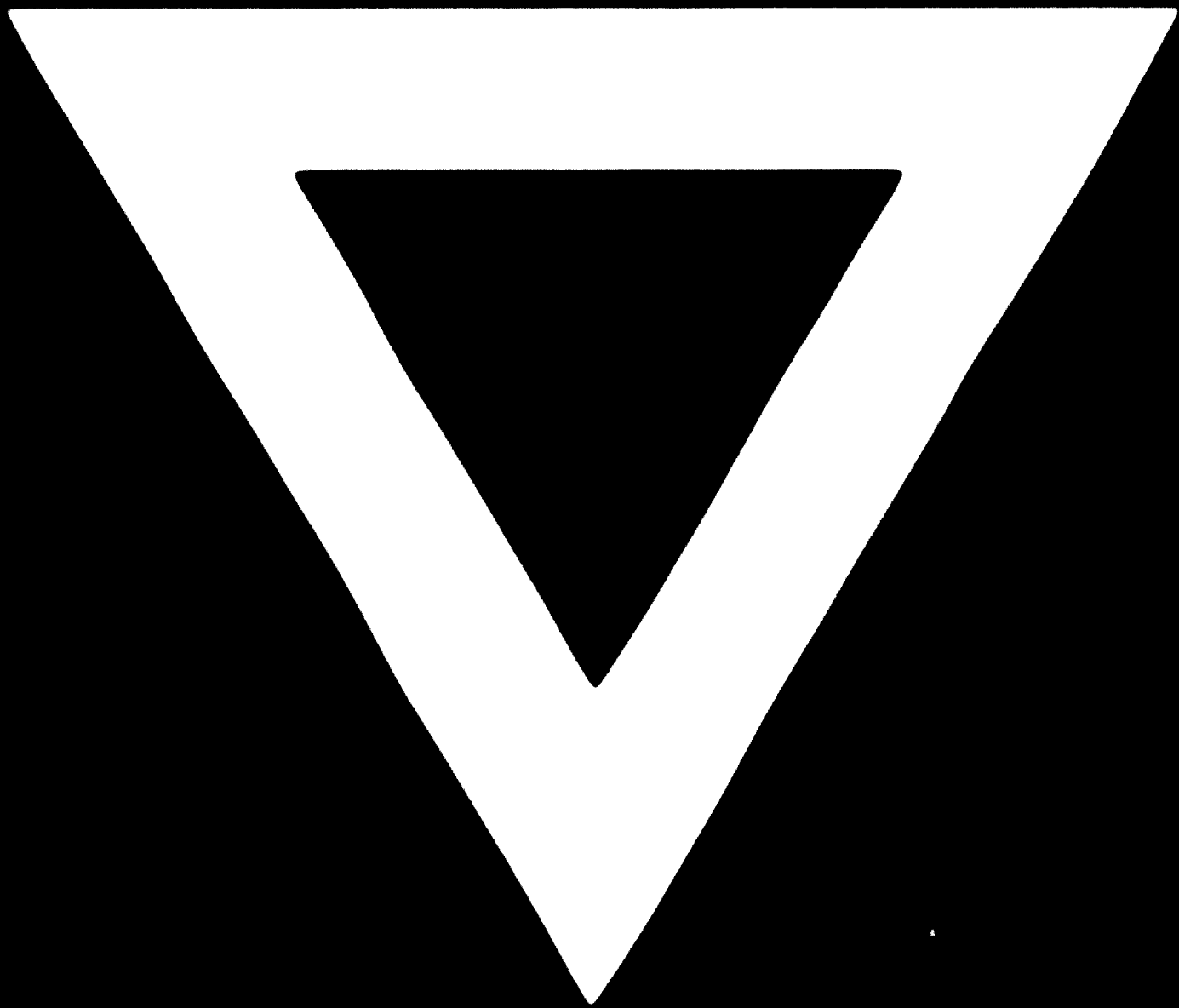
Present plans also call for joint efforts with the UNIDO sections responsible for Cooperation Among Developing Countries and Least Developed Countries. Additional resources are being sought in accordance with the outline given above, and detailed project funding proposals are being negotiated. A detailed but tentative workplan for 1978 - 79 is as follows:

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| <p>(a) Select 3 - 5 developing countries in different stages of industrialization and obtain their agreement to participate in the programme. Carry out survey of existing activities including literature on the subject. (Tanzania, Egypt, Sudan, Panama, Guatemala, Korea, Mexico, Saudi Arabia, ASEAN and Andean Pact countries are possible examples.)</p>  | <p>Arrangement with countries before January 1978.<br/>Survey Jan-Feb 1978.</p> |
| <p>(b) A team of consultants (and a UNIDO staff member) will visit each country to obtain information on several industrial projects. (Some of the projects will be in preparation stage and some already operating). The cases will be selected to illustrate problems and opportunities associated with management transfer and the integration of management aspects with technological and financial factors within the framework of national development objectives.</p>          | <p>Feb-April 1978</p>   |
| <p>(c) The consultants will prepare country papers based on their visits and outline their recommendations. Representatives of the co-operating countries will join the consultants, UNIDO staff, and donor country officials in an expert group meeting which will consider all aspects of the consultants' findings and recommendations. Other UNIDO sections, especially the Section for the Development and Transfer of Technology, will be fully associated in the programme.</p> | <p>Preparation<br/>April-May 1978</p> <p>Expert Group Meeting<br/>June 1978</p> |
| <p>(d) Based on conclusions of the expert group meeting, the consultants will prepare a detailed manual including guidelines, checklists, case studies, and information sources for publication in English, French and Spanish. The manual will be for developing countries' use in acquiring all elements necessary to establish strong new industries by integrating management aspects with the other needed inputs.</p>  | <p>July-December 1978</p>   |

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|---|---|
| <p>(e) An informal network of consultancy firms in developing and industrialized countries will be set up to assist in implementing the findings of the programme on a pilot basis in selected countries. Experience from these pilot applications will be the subject of additional publications and will be one input to a follow-up programme (1980 and beyond) to establish widespread awareness and application of the integrated approach to establishing industries.</p> | <p>Establishment of network during 1978.</p> <p>Pilot applications<br/>October 1978-July 1979</p> <p>Forward planning for 1980-81<br/>beginning May-June 1979<br/>(for budget purposes)</p> |
| <p>(f) Results of the project and follow-up plans will be discussed at a Preparatory Meeting of consultants, UNIDO, and Donor country officials to complete plans for the Symposium.</p>  | <p>August or September 1979</p>   |
| <p>(g) A symposium with broader country participation will be held near the end of the project to disseminate and promote the use of the project's results.</p>   | <p>November 1979</p>  |



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