

MANAGEMENT DEVELOPMENT IN EASTERN EUROPE

*economic reform behind
Iron Curtain creates
new needs for
management development
— and interest in
Western practices*

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All over Eastern Europe drastic economic reforms are taking place which require for their implementation new training approaches throughout all kinds of organizations.

No longer is the economy considered as "one big enterprise" in which the government decides what role and functions each unit and each part of the management hierarchy is to carry out. No more is each enterprise considered one of the administrative organs of central government. Detailed administrative interference is being replaced by fiscal and financial measures, general trade policies special subsidies and the like.

In Hungary for instance, the new economic system was introduced on January 1, 1968, after two and a half years of discussion and preparatory planning, involving more than 2,000 officials in Government departments, economists and technologists. It has involved the transfer of much greater responsibility and initiative to the individual management.

"SOCIALIST BUSINESS"

All over Eastern Europe the "market" which has been very restricted for many years is being returned to its economic role. Central planning instead of distributing targets and resources is increasingly employed to analyze the needs and possibilities of the country, to foresee the trends in economic development and to support the most desirable by a variety of economic measures.

Each enterprise is becoming a "socialist business" whose management has to run the business without being told specific targets and how to achieve them. It now enjoys greater freedom, but has lost the government's economic protection which was one of the peculiar features of the past system. Every business has to assume certain new functions primarily in marketing and finance.

CUSTOMER ORIENTATION

The needs and interests of customers have become one of the most important features affecting production manage-

ment.

The old idea of fulfilling a production target — however badly the goods were made — has been abandoned and the wasteful production of goods that could never be sold is over. In the future, the output of a factory will have to be sold before additional profit-sharing can take place.

Financial aspects of stock-control, use of equipment, quality control, etc. are increasingly being taken into account. For the first time, the human factor in enterprises has become important.

In Hungary, working conditions have been improved and the five-day working week is being introduced. The working week has been reduced by four hours to 44 hours in the first instance, without, it is said, any loss of production, but rather with increased productivity.

THE PAST

Until recently, the principal function of managers was not to decide how to develop the enterprise but to take measures to guarantee the realization of decisions taken at higher levels. Managerial performance was essentially evaluated on the basis of short-term standards where the fulfillment of laid-down current targets was usually the most important. That they had to give priority to targets in which the highest political agencies were interested meant, in practice, that managers dealt almost exclusively with these short-term everyday management problems.

If a manager wanted to be successful under the old system, he had to identify himself with the criteria set by it, to observe them in his daily work and to subordinate other criteria and values to those given him by the overall system, both economic, social and above all, political.

Under the old system, the majority of capitalist management methods had been declared unsuitable for the conditions of socialist enterprise. Only a limited number of methods were officially sanctioned, primarily those concerned with the technological and ma-

terial aspects of production (production scheduling, quality control, plant layout).

MANAGER BACKGROUNDS

A number of other principles and techniques of management were known but nevertheless not practised. While a good many managers were quite well informed theoretically, they were not in a position to acquire the necessary know-how which comes mainly with practice. Most managers had come up the hard way. They often had only basic or secondary education on which they had built their vast experience of the shop-floor. This was particularly true of the older managers.

The proportion of graduates among junior managers was rather higher. A high proportion of general and senior managers had been concerned with production management and in some cases with design engineering. Some of the senior managers were "workers" directors.

The majority of managers who had completed higher education or who had university degrees had studied engineering. A few of them were graduates in law, commerce or economics. Their subjects had been primarily the theory of political economy, the planning of the national economy, principles and techniques of planning at the enterprise level, statistics and book-keeping, and a peculiar discipline called "Material-Technical Supply" which tried to explain the administrative distribution of raw materials and products in the national economy.

THE NEW MANAGEMENT

It is recognized in the countries applying the economic reforms, that they have to be implemented by managers who with very few exceptions, have never known any other system than the previous administrative one of centralized government control. The results of the reforms will depend not only on the managers' understanding of what the reforms are all about but on their own

ability to carry out managerial functions and assume responsibility under new conditions.

Fortunately, the reforms themselves will help managers to face this task. The new economic system will undoubtedly function as a catalyst of quick general progress in managing socialist enterprises. Obstacles will be removed which made the practical application of many pieces of managerial know-how difficult or ineffective in the past. The reforms will stimulate the utilization of any relevant experience which can be effectively applied by the enterprise to achieve its new economic and social objectives.

Increasingly managers will be able to draw on the experiences of their more progressive colleagues and will gain self-confidence and security in working in the changed atmosphere. Thus having to manage under the new conditions will be the best practical schooling for the new managers.

However, even the best or most adaptable of them will often find themselves in difficult situations and all managers will need a great deal of help. It is widely accepted that management training and development is an integral part of the reforms and should support them and help every manager to reform himself.

TRAINING IMPLICATIONS

There is a need for two major areas of management training: The first can be labelled "appreciation of the economic reforms." It has to be given to as many managers and staff specialists as possible to prevent misunderstandings and to reduce to a minimum situations with which managers would not know how to cope or in which they would find it difficult to react in line with the new approaches.

Such training is used to explain the relationships between the various economic, organizational, administrative and other measures introduced within the reforms; discuss the new functions of the enterprise, the changed economic situation in

which the enterprise has to operate and the resulting changes in the functioning of managers; give an introduction to the new management methods and techniques relevant to the situations brought about by the reforms.

Already a number of ministries, research institutes, universities, training centers and similar agencies are giving short courses and seminars using more or less traditional teaching methods to achieve these aims. In some Eastern European countries, governments have made these introductory courses compulsory.

To deal with the second area, the long-term training related primarily to the future functioning of the reformed economic system, each country is attempting to establish a comprehensive management training system.

RUMANIA

Rumania, for example, in December passed legislation establishing an integrated system of training similar to Britain's Industrial Training Act. (see *Training and Development Journal* August 1969). Rumania's president Nicolae Ceausescu said in a major speech to the entire nation, in December 1969:

"The competence of our managers is the principal condition for solving the ever more complex problems with which we are faced as a result of our economic development. Let us organize management training programs to help managers know and understand the new ways in which they should carry out their activities. We must insure a better appreciation by our managers of the economic and social problems: all of us must sit down and learn, exchange our views and clarify our ideas on some of the essential problems of our social and economic development. If we do not learn new ways, we shall not be able to meet our challenges. Management is a human science — perhaps a science more important than others, as it has great impact on the whole society. Every management decision affects the welfare of the nation. We cannot, therefore, accept improvisation, there is a need for thorough training."

The focus of much of the work in the next few years will have to change managerial thinking — conversion in managerial attitude from almost exclusively

administrative approaches to economic, commercial and entrepreneurial ones.

In most Eastern European countries, the establishment of a national management development center which is expected to act as the leading body and principal promoter of the whole system is the most important step. This is usually done by the government, and centers of this kind now exist under various names in practically all Eastern European countries. Most of them were founded since 1965. Such national centers are responsible for the training of selected senior managers, sometimes including deputy ministers and heads of government departments.

SOVIET NEEDS

Even the Soviets are caught by the demands of a technological age for managers. They do not have enough qualified industrial executives and are having to face up to the thorny problem of how to remedy the shortage. As the need grows more acute, Soviet planners and economists are calling with increased urgency for the establishment of special management schools.

At present there are specialized schools in the Soviet Union for training factory managers, administrators, production planners and the like. Basically such personnel come out of the ranks of the engineers, are trained on the job, and work their way to the top. There is, moreover, no clear line to an executive job. Factories that have trained their own managers naturally hang on to the good ones. This means new plants have no managerial pool from which to draw and must themselves start from scratch. This has been the case, for instance, at the new Volga Automobile Plant at Togliatti, which is to begin producing Fiat passenger cars in 1970. Though many managers and administrators have been transferred there from other factories, the plant continues to advertise for shop superintendents, production planners and department heads. One high-ranking planning official, the deputy chairman of the Russian Republic State Planning Committee, Viktor N.

Lisitsyn, has said unabashedly the Soviet Union should utilize the experience of the advanced capitalist nations and establish schools similar to the London or Sloan School of Management.

NATIONAL CENTERS

Another major field of activity for the national center is the systematic support it gives to other institutions engaged in management training through the training of management teachers, the production and dissemination of modern teaching materials, the introduction of experimental and model courses, advice on planning and organization of training.

In some countries, the center is made directly responsible for the establishment and development of regional centers, which can be important instruments of decentralization in training. They serve primarily the industries of great economic and social importance to the region and provide easier access to training activities for managers of medium and small companies and are also oriented mainly towards middle and lower management training. A further major component of the overall management development system of the country is the "sectoral center" set up usually by an industry or the ministry responsible for it.

Such centers give greater emphasis to particular factors affecting managers within one industry, e.g., textiles, commerce, tourism. They train primarily senior and middle managers who are close to production and technological functions and whose activities differ substantially from those of their colleagues in other sectors of industry.

Today, there is growing up a network of centers, institutes, schools and other organizations participating in the overall process of management development. Between them, they aim to provide training for various economic sectors, branches, enterprises and regions, for enterprises of different size, for various levels of management, for different functions and specialisms, for people of

differing educational backgrounds and for those who have already been through managerial courses but need to refresh their knowledge. Those engaged in the creation of systems for management development in Eastern European countries are anxious to benefit from experience in more developed countries.

Today there is widespread acceptance of foreign experience and help from overseas. Amongst a number of institutions in different parts of the world, the "Centre d'Etudes Industrielles" in Geneva, Switzerland is very active in exchanging international experiences with corresponding centers in Eastern Europe.

ILO

The key agency, however, in management development, in Poland, Bulgaria, Rumania and Hungary is the International Labour Office, the recipient of the 1969 Nobel Peace Prize. Invited by the governments, the ILO prepared special management development projects which are financed partly by the governments themselves and partly by the United National Development Programme.

The main objective of these projects is the organized and systematic utilization of foreign management and management development experience, particularly in the establishment and the building of a national management center, in the preparation of training schemes for managers and in the application of modern teaching methods.

Management teachers at national and other centers are assisted by the experts in the design of courses and participate directly in training activities. The main task of the foreign experts is to translate their experience to teachers at the centers who will carry on and use their experience after the "visitors" depart.

In addition, a certain number of management experts from developed countries visit Eastern Europe for short periods to give specialist advice within the framework of the projects and at special meetings and conferences. In January

1970, a ten-day meeting was held in Prague, Czechoslovakia for the training directors of ministries, major industries, the armed forces and professors of universities to discuss management development approaches in the West. Organized by the ILO, Geneva, the major contributions were made by representatives of leading companies and academic institutions in Britain and the U.S.A.

EDP TRAINING

A substantial part of each project consists of the installation of electronic data processing equipment to be used primarily for training managers and specialists in business applications of EDP.

The projects make it possible, through grants or fellowships, for a number of national specialists engaged in management development to study management experience abroad.

In addition, a few of the leading companies in Eastern Europe send one or two of their brightest young men to study business management in the West. Right now, four young Czechs of outstanding ability are attending management schools on the shores of Lake Geneva in Switzerland. All four are proteges of Skoda, the engineering and armaments giant, which chose 100 employees of real talent from its 70,000 labor force to form a reserve cadre for future promotion to top management. The four are the first trickle of what could become a flood of Eastern European managers turning westward for indoctrination in the management techniques of the free enterprise system.

Whether the standard of living of millions of people in Eastern Europe will continue to lag behind that of the peoples west of the "Iron Curtain" will largely depend on the success or failure of the economic reforms.

MANAGEMENT IS KEY

Failure, at least of a partial kind, could have many reasons. Among them could be the inadequate basic education — too few people with the fundamental knowledge and skills to back up indus-

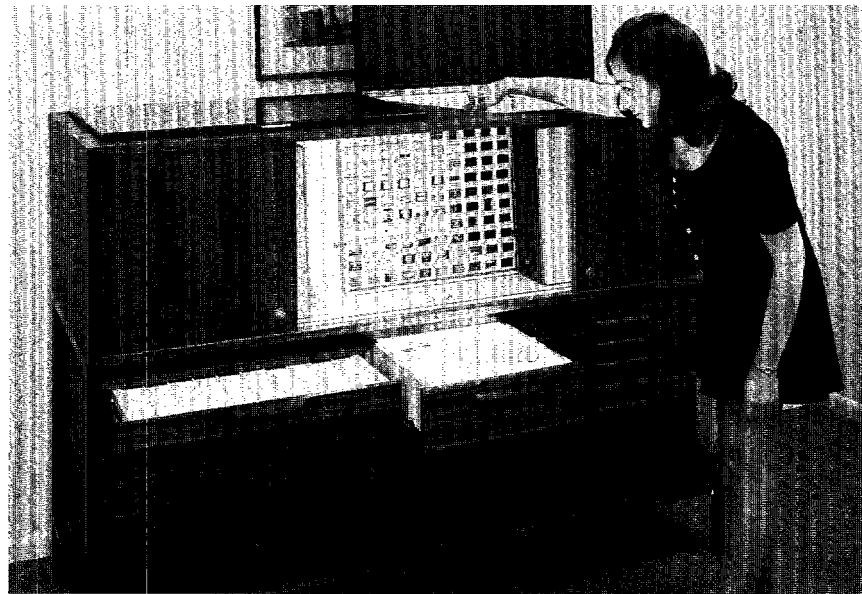
trial development; unhelpful outlook and attitudes — the result of the turbulent past which makes the peoples of Eastern Europe value peaceful existence more than efficiency; reluctance to change — arising partly from their own feelings of inadequacy and partly from the fear that the present "liberalism" may not last . . .

Success will almost exclusively depend on the abilities of managers, of all those in position of influence and leadership, charged with formulating policies, coordinating resources, motivating people and controlling operations. In all this, most of the present managers, in the government and through every level of industry and commerce, the professions, the social services, the armed forces, are

weak.

Peter Drucker recently said: "There are no under-developed countries, there are only 'under-managed ones'." Eastern Europe, at present, is basically under-managed. If the economic reforms are to succeed, many hundred thousands of managers will have to be helped and helped quickly. The management development efforts described above are the beginning only of what will have to become a major campaign — a training effort the like has not been seen before. On its success may not only depend the prosperity of a major part of Europe, but because of the close relationship between standard of living and social and political demands, perhaps the peace of the European continent, if not of the world.

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