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PREFACE

This book is a collection of essays on the state of the art in comparative management. We have asked the best scholars in this field to give their opinions and insights into what is going on. What follows are their observations.

A relevant question is, what is comparative management good for? Clearly, it interests various people, and in the past 20 years or so it has become a minor, though respected, field of business study. In recent years, there has been a considerable increase in interest in comparative management in the United States, mainly because American management, once considered the best in the world by far, is now threatened by others, most notably the Japanese. Somehow, American managers are not superior anymore. Why? This question leads quickly to comparisons between the best Japanese practice and the American. Note that the very notion of superior infers some efficiency or effectiveness notion. The reasoning is that America is wealthy in part because it managers are superior. That is, they are able to get more output from given inputs. But now Japanese managers can obtain even higher outputs from given inputs. Hence, in some sense the Japanese are better. They must know something that we Americans do not know.

So we now see many books and articles examining Japanese management, exploring exactly how it is done. Implicitly or explicitly, such Japanese practices are compared to American, often with considerable criticism of American practice. If only American managers did things differently, they would be better, and this follows from the fact that the Japanese managers already are doing better.

Academics and some practitioners from Third World countries have been the most eager students of comparative management for many years, following the above reasoning. A country is poor. Why? Among many other things, its managers perform more poorly than those from wealthier countries. If local firms could be managed better, then incomes would rise and the country would grow economically. Now, just how can managers do better? Comparisons with presumably superior managers elsewhere may give one ideas on what can be changed.

Academics have long been interested in explaining things, and the field of comparative management has been kept alive by their interest. A steady flow of articles and monographs has attempted to develop methodology in this field: to explore relevant interrelationships between environment and management; and to attempt to determine if environmental or managerial factors are more important in given situations. Given the enormous possibilities for relevant comparisons, this work has barely begun, although considerable progress has been made in refining relevant theoretical constructs.

Scholars, practitioners, and politicians have long been interested in economic comparisons, and who is first in the world income per capita race is always relevant, as are those countries that have achieved very rapid growth. Hence, such countries as Japan, Hong Kong, Singapore, Taiwan, and South Korea have received much attention, since these economies all have had their economic miracles in the past 30 years. Much serious scholarly research, along with much popular writing, has examined the peculiar features of these countries, often comparing results and critical factors with other, less successful countries. Thus, it is common to find discussions about the relatively free market economies these countries have, along with their strong export marketing orientations, and to compare these to Marxist or closed economies that have not done so well. Often these discussions focus on environmental factors only, but they do occasionally examine managerial variables as well.

Multinational firms that have direct investments in many countries have long been both practitioners and students of comparative management. The question of how a firm can manage effectively in another culture is a very practical one for such firms. Historically, in the 1960s, much of this interest was American, since at that time the bulk of such direct foreign investment was from this country, but more recently Japanese and European firms have become interested, since they now face similar problems to those American firms faced a decade or two ago. The Japanese, for whom all Western cultures offer strange new customs, seem particularly interested, as their firms increase foreign direct investment.

One major dimension of comparative management is behavioral. It is obvious that people behave quite differently in different cultures, and if a manager is to manage effectively, he or she must have some insight into behavior. Hence, we find many behavioralists, including psychologists, organization behavioralists, sociologists, and cultural anthropologists examining this dimension of comparative management, as they have done for several decades. Often they have come up with useful insights and theoretical constructs.

A strong implication of morality and ethics has always pervaded the comparative management field, although rarely is this spelled out in academic studies. We all know that our own culture is somehow superior to others, although we rarely mention this fact, and one way of proving this point is to be able to have a highly efficient economy, with fast growth and high income per capita. Americans have muted their protestations of moral superiority as their per capita incomes and economic growth have declined, but others tacitly claim superiority based on economic and/or military superiority. Those from very poor countries eagerly study other cultures to determine why, if their culture is so superior, they are all fouled up economically. Perhaps comparative management will yield useful insights which will enable them to regain the days of glory! Or perhaps it will enable them to explain why, after all, their economic performance is so inferior . . .

And finally, comparative management necessarily deals with insights into how to improve something. The world we live in is defective in many ways, including the important problem of how to feed everyone every day, and if we could manage better, we might overcome some of our defects. Since economic development and related social improvements are very difficult to achieve, perhaps this field will yield new insights. Comparative management has long been of interest to those scholars and practitioners who are directly concerned with improving economic performance.

The basic and often unstated premise running through all of this is that what we want is something better than what we have. In short, the efficiency problem is very real. If we could achieve more output with limited inputs, then we could gain more arms, raise incomes, fund more hospitals and churches, improve housing and education, and, in short, achieve whatever our cherished goals are. We need to become more efficient, and perhaps studies of comparative management will lead the way. It is quite clear that rich countries are well-managed countries, although it is not so clear that other factors, such as excellent political systems, well-educated populations, and large amounts of resources per capita, might be even more important. Yet management does matter, in both the public and private sectors. Hence, we turn to this field in an effort to answer the basic question, just how can things be done more efficiently than they now are?

Comparative management also inevitably gets involved in both managerial and environmental problems. Even cursory studies of any country quickly suggest that management is different from one country to another, and this is in part because the firms' environments differ. Hence, one country has a superb telephone system, while another has a very poor one. Managers of equal quality will do better with phones than without . . . they are more efficient. If that were all there was to the problem, then any country could construct a superb phone system and get rich. But one quickly notes that much more is relevant. Some managers are better without phones than others with phones. Why? Such questions lead to explorations of the entire environmental system, along with equally complex studies of all of management, in an effort to determine cause and effect. If only a few key variables can be isolated, they can be changed, and firms will become more efficient, national income will rise, and we can more easily achieve our goals. Unfortunately, at the present state of theoretical development, no one can say with precision exactly what is important. The essays in this volume are in large part addressed to this critical question.

The field of comparative management really began in the late 1950s, then had a burst of academic interest in the early 1960s. A number of scholars explored the field, formulated theories, and suggested relevant field studies. From about 1965 to 1972, there were a number of excellent field research studies, and courses began to be offered in comparative management at many universities in the United States. After this, the field entered a period of relative stagnation (in spite of many excellent studies), and interest declined academically. Only now is interest being revived, in large part because of the interested parties mentioned above.

What happened was that in its initial stages, much research funding was available, most notably from the Ford Foundation. Good fieldwork in comparative management can be very expensive, and as funding sources dried up, so did much research. As a result, there was little hard data available to support or reject early theoretical work.

A second cause of relative stagnation was the very rapid growth of American business schools in the 1970s. Harassed deans, frantically trying to find able professors to staff required courses, were not always willing to allow scholars to spend much time on comparative management, and in many schools, nonrequired courses of all sorts languished. Comparative management has not been built into the core curriculum of American business schools, so it has often been treated as a poor relation of larger, required areas. Much of the excellent comparative management research of the 1970s came out of the hides of dedicated scholars who were swamped with other studies.

American practitioners, mainly from multinational companies (MNCs), often perceived comparative management as irrelevant to their needs. This author has argued long with managers who noted that they did not need to know much about the culture of other countries, because they could always hire able and well-educated cross-cultural managers from those countries, often with MBA degrees from excellent American schools. Such managers could rather easily handle whatever cross-cultural problems might arise.

This managerial perception was true, in that U.S. MNCs often creamed off the very limited top managerial talent in many countries. The rest of the country got along as best it could with whatever local talent was available. But poor local cultures could not afford to support extensive theoretical comparative management work which in some long run might prove beneficial. Lacking support from the wealthy and potentially interested major firms, comparative management languished.

The majority of business research is done in the United States, and the perceived superiority of American managers and management also led to lack of interest. If one is best, why bother figuring out why? Many first-rate U.S. business scholars were more concerned with local problems than with international problems. It is notable that many of the finest scholars in comparative management come from countries experiencing significant managerial problems. These people really kept the field alive during its lean years.

Countries with major efficiency problems—which includes the entire Third World—often did not believe much that business scholars let alone comparative management scholars, were saying. While the management problems in any society are increasingly being seen as critical to the country's economic progress, it is still true that many men of affairs believe that some fundamental environmental changes, such as shifting from capitalism to Marxism, will somehow solve all the country's problems. Subtle and complex linkages between good management and environmental factors are just not seen or believed. Much of the developed Marxist bloc also perceives the problem this way, and often suggested reforms are not politically acceptable. Hence, the observation that one way to grow very fast economically is to emulate Hong Kong or Taiwan and run a very capitalistic system is heresy in many countries.

One sees this perception today in such diverse countries as North Korea, Iran, and El Salvador. Leaders or revolutionaries in such countries are not likely to embrace any precepts of any business studies, let alone comparative management. Other theories or theologies are accepted, and tried.

But many gods have failed in the past two decades, and countries in trouble tend to look to others for guidance. I noted earlier those parties interested in comparative management, and interest grows as more people realize that nothing else is working too well anyhow. The search for urgently needed solutions now sometimes even includes comparative management. Rich countries wonder why Japan does so well, while poorer countries wonder if perhaps Hong Kong or South Korea merit serious study to see what their magic is. The biggest country of all, the People's Republic of China, ponders massive structural reforms which include potentially revolutionary managerial changes. It is awkward to be right philosophically and morally, only to discover after 20 years that one's fellow Chinese in Hong Kong and Taiwan are over 10 times better off, after starting from the same base. Somehow the gods really have failed.

Virtually all Marxist countries are getting into deep trouble, and this also leads to searches for new solutions, which on occasion lead to comparative management. Once again, we find a revival of interest in this quarter. And, in the end, nothing much else works! After three decades of serious economic development work, we know very little about how the process works, except to note that somehow management seems to play a major role in the successes achieved to date. Those countries that have gained much have clearly improved managerial practice enormously, so once again we return to comparative management to see what insights might be gained.

Hence, we present this volume of essays in comparative management as representing the current state of the art. Many viewpoints and theories are presented here, representing the best in comparative management thinking. As is typical in comparative management and many other fields, top authorities do not always agree with each other, but this is a part of the intellectual debate and fun. Seeking out truth can lead to error, but unless the debate countinues, error will also continue. It is also true that comparisons can be made from a wide variety of perspectives, as the following essays suggest. Some authors compare countries; others look at specific sectors in various countries; still others look at cultures and subcultures. But in all cases, the intent is to try to figure out how we might do better in this confusing world. Comparative management, with its focus on the manager as a productive and major resource, may in the end give us all significant insights into how to achieve our goals more efficiently and more rapidly. If this is the end result of scholarly thought and work, then it will all be worthwhile.

Richard N. Farmer
Series Editor

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EFFICIENCY OF FIRMS AND COUNTRIES

Richard N. Farmer

I. INTRODUCTION

Countries and firms want to achieve something with minimum inputs, if possible; then they are better off than the less efficient. Whatever they want to do can be achieved easier and faster if they can do it well.

This leads to questions of both firm and country efficiencies, of which the first is, efficiency toward what? That is, what are the goals of the complex system?[1]

At the macro or country level, it would appear in virtually all cases that top priority is given to system survival. In a nation-state world, this means that the country maintains independence and freedom of action to pursue other goals. Few management scholars have explored this point in much depth, since it relates more to military and diplomatic activities than to management, and few development economists say much about it either, although the eagerness with which countries buy arms suggests that it is, indeed, a potent goal.[2]

A second critical macro goal is survival of the country's elites. Very few

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groups have ever voluntarily relinquished power, and how to stay in power fascinates all elites. Again, this goal is rarely discussed in the management literature, although it appears to be crucial to any analysis.

Growth of the country's power, which means the expansion of and prestige gains for the elites, is also critical. These three goals appear to be the most important, and the usual management and economic goal questions really relate to how to obtain these three goals. What does a country do? It tries to achieve these three goals by whatever means come to hand, and insofar as elites and power groups can understand how to achieve them. Quite possibly, given the complexity of even a small economy, elites will make critical mistakes, and hence lose power. A country may even lose its independence if its system cannot withstand enemies. Wanting power, survival, and growth does not necessarily mean that anyone can obtain it.

One major way to achieve these goals is to have a wealthy country, as measured by GNP per capita. The richer you are, the easier it is to achieve these three goals. Rapid growth in GNP per capita also leads to more goal achievement, and most countries would prefer to grow. Note that often the growth is devoted to building up military power, not saving babies. What one does with wealth can be quite varied.

And finally, most countries are quite interested in a higher quality of life, however defined. They may want cleaner air and water, well-educated citizens, higher health and welfare standards, and many kinds of useful cultural activities. High GNP is not enough, if people are sick and the air is polluted. There has been considerable discussion of both what the quality of life is and how it might be measured, but this goal is somewhat more diffuse than income measures, which can be more precisely quantified.[3]

At the micro level, private firms typically try to maximize profits through some time dimension. The larger and more sophisticated the firm, the more likely that it will strive for longer-term profit maximization. This goal has long been debated, since powerful monopolies and oligopolies often appear to be doing something else, but when losses mount, even the largest firms rather quickly return to a maximizing stance. They have to, if they are to survive.[4]

Survival is also a powerful company goal, and it relates closely to profit maximization. Profitable firms can survive better than those that are not. Part of the confusion about what firms really are doing stems from the subtleties of a very profitable large firm faced with potential government action to nationalize it, break it up, or increase social controls over the firm. In such situations, which are quite common, firms may well not push profit maximization to extremes. They make money, but they survive too, and they can wait for better days. Another reason why firms often seem not to maximize profits is sheer ignorance—they really do not know how. Managers are not omniscient, and examples of inefficiency are common.

And finally, private firms want growth. To grow means both more profits and higher survival possibilities, to say nothing of enhanced pay, prestige, and perquisites for the managers. Growth patterns for major firms in the period since 1950 have taken many of them abroad, and the multinational corporations (MNCs) emerge as not only the most likely to prosper and survive, but also as those having the best potential for rapid growth. Having the world to conquer is always better than being stuck in any one country.[5]

Publicly owned firms want to survive, to grow, and typically to meet whatever financial criteria their state supporters demand. Break-even operations are common, as is profit maximization. Profits from many salt, tobacco, or electric power public monopolies have been used to cover government deficits. Huge losses are also common, but public firms often recognize that such deficits are subject to perpetual scrutiny, and sometimes the public firms cannot count on long-term government support. For survival reasons, break even or profits are better.[6]

Given these macro and micro goals, just how do managers and politicians obtain them? There are numerous examples at both levels of highly successful efforts to achieve such goals, and there are numerous examples of those that failed on both levels. In the limit, the country or the firm disappears, and all is lost. To avoid this, one necessarily thinks about efficiency in achieving these goals.

II. EFFICIENCY CONCEPTS

Engineers and economists have long considered efficiency and how to measure it. The engineering definition is $E = O/I$, where E is efficiency, O is output, and I is input. If the variables can be quantified, efficiency is easy to compute. Thus, an electric motor draws a certain amount of energy, in the form of watts, and it yields a certain output. Everything is quantified, and the engineer can state that a given motor is 62 percent efficient.[7]

Economists have more difficulty, since the inputs into any productive system consists of diverse items, which cannot easily be combined. To produce a ton of cement may require x man hours, y energy, and z capital, among other things. The output will be tons of cement. How efficient is this plant?

The answer will depend on the values of both inputs and outputs. But what are the values? The only meaningful way to measure this is to assign money values to all items. If $100 worth of input yields $150 worth of cement, then some efficiency statement can be made. The $50 residual is profit, and if the total output in a second plant were $160, then it would be in some sense more efficient than the first.

This is easy to say, but very tough to measure accurately. Economists have long noted that value is a slippery concept. Suppose that a monopoly power company charges too high a price for that energy? Suppose that the government subsidizes certain kinds of capital, so that this capital is badly underpriced?

Suppose that labor unions have a monopoly of supply, and wages are far too high? And why is the cement worth $150? Is this firm a monopoly supplier, able to charge high prices, or is it fighting in a highly competitive world market, where the price is determined by competition? In effect, unless the values are "right," it would be difficult to say much about economic efficiency in this case.[8]

When one makes comparisons across countries, this problem becomes worse, since the true value of various inputs, along with the outputs, may be distorted in different ways. One country subsidizes capital, while the next deliberately makes it more expensive. One country has tough price controls on output, while the other allows the firm to charge what it can get. Only when all prices of all inputs and all outputs are competitively determined can any meaningful comparison be made.[9] Since we rarely find this state of affairs in any market, our efficiency problems are difficult.

It can be shown through elegant economic analysis that, given competitive markets, a certain flow of output is the most efficient in any given economy.[10] However, this insight, developed in welfare economics, flounders on the question of income distribution. Why is that cement worth $150? Because, given incomes and tastes, this is a proper market clearing price. But why are incomes distributed the way they are? The usual answer lies in history, wars, accidents, ownership of assets, special skills potentially monopolized by professionals and craftsmen, and other factors. Is this income distribution *right?* If it were different, the price of the cement would be different, and the firm would operate at some other level of efficiency. But the ultimate question, namely, what is the right income distribution, in the end becomes ethics, not economics.[11]

Given an income distribution, an economist can tell you what is efficient, but as an economist he or she cannot tell what the proper income distribution is. Hence, efficiency in the end becomes a metaphysical, not an economic, issue.

Economists also assume perfect knowledge. Those cement plant technicians and managers know what to do, and they do it properly. Perfect knowledge implies perfect management, but even the most cursory inspection of any firm or industry shows much ignorance. Our cost accountants are not that good; our marketing experts really cannot forecast demand properly, nor can they select the optimal marketing channels; our corporate planners frequently make improper estimates, and so on. The whole field of business administration and management is devoted to developing more needed knowledge and spreading what knowledge exists. It is not uncommon to find huge ranges of profitability among firms in the same industry in the same country, suggesting that knowledge is rarely perfect. Technicians of all sorts will similarly point to huge gaps in knowledge, leading to imperfect techniques being used to manufacture almost any good or service. And those who have done comparative studies across country and cultural boundaries are keenly aware of how much managerial and technical ignorance exists everywhere.[12]

In spite of these difficulties, these economic insights are most useful. What is most efficient? The system which has the most relevant knowledge, and the one which operates in the most competitive markets. If these conditions can be changed for the better, the usual result is to increase productivity and improve efficiency, however defined. It is a common experience for a new management team to come into a firm and improve performance significantly, often by hundreds of percent. It is relatively common for an industry to become more competitive and likewise improve its performance. It is also common for an entire country to become more competitive, typically by opening up for foreigners, and also improve its economic performance significantly.

At the firm level, efficiency can be increased by either expanding revenues, given inputs, or cutting costs, given sales, or some combination of these. This general rule is subject to the suboptimization constraint that no gain in any subunit of the firm lead to losses in any other unit which are larger than the gains.[13]

This is easily said but difficult to do in practice. Consider the case of improving revenues by tightening credit checks and performing more efficiently in collections. In this case, the finance subunit does very well, and the firm is more efficient. But in doing this, marketing might be badly hurt, since many sales are made through use of easy credit. Sales may fall faster than finance improves. Or the production manager may have long runs of standardized products, which make production very efficient. But again marketing is badly hurt, since customers want variety and buy less of the standard product. A good part of efficient management is to guarantee that whatever is done avoids creating such suboptimizations.

Opportunity costs are equally critical for efficiency. A firm may be able to invest in a project which is estimated to yield 30 percent, and this looks good. But the same scarce funds could be invested elsewhere to yield 40 percent. Given capital and trained personpower shortages, both cannot be done. The efficient investment at 40 percent puzzles persons in the firm, since the company is obviously passing up chances to make big money. Yet, given resource limitations, it cannot do everything. Often the firm invests at 30 percent, and it looks good, but it is not.

State-owned firms frequently are constrained from investing outside their own countries, and as a result they have to pass up possibly lucrative investments. This is one major reason why such firms, even if well managed, do not normally do as well as MNCs, which can invest anywhere. By systematically constraining firm investment, countries may make their firms less efficient. Small businesses, typically not able to accumulate relevant information the way larger ones can, have similar problems, and many make suboptimal investments.[14]

The problem here is made more subtle by the fact that the firms are making money. Yet they could make more. Figuring out what should have been done, as compared to what was done, is virtually impossible.

All of this optimizing takes place through time, in various turbulent environ-