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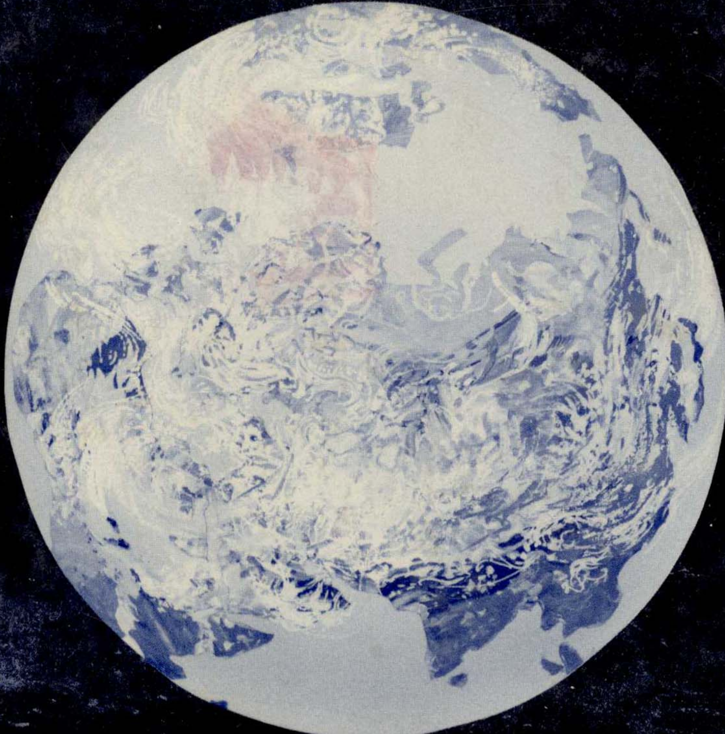

management and the world of tomorrow

Key issues for management in economic growth, technological change and human welfare

The proceedings of the 18th CIOS World Management Conference

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Preface

Established in 1926, CIOS—World Council of Management (originally Conseil International pour l'organisation Scientifique) or Conseil Mondial de Management is a non-political, non-government and non-profit organisation of representative management organisations throughout the world. It promotes scientific and professional management, furthering, through its member organisations, research, education, training, development and practice, as well as exchange of information, knowledge and experience among its member organisations. A partner in other international organisations, CIOS has a consultative status with UNESCO and UNIDO as well as an observer status with the ILO.

In December 1978, the 18th CIOS World Management Congress was held at New Delhi. It was hosted by the All India Management Association. The theme of the Congress was 'Management Perspectives for Economic Growth and Human Welfare'. It was the first time that a CIOS Congress was held outside the developed world and in the Third World and therefore the emphasis on human welfare and quality of life during the deliberations was particularly appropriate. A 1200-strong community of professional managers and management experts from the developing as well as the developed world participated and made discussions very meaningful with their deliberations on critical management issues.

The then Prime Minister of India Mr. Morarji Desai, who inaugurated the Congress set the tone by exhorting the managers to observe highest standards of ethics in performance of their jobs, and not to forget the importance of human welfare in working for other people. "The real art of management", said Mr. Desai, "is taking the best from every person with whom the manager has to work. But that can only happen when he himself gives his best."

Dr. Bharat Ram, one of the leading industrialists of India and President of the CIOS, in his Presidential address emphasised the significance of 'economic growth' and 'human welfare'. "Talking of 'economic growth', 'human welfare' or even 'perspectives' does not appear as easy today as it did even a few decades back....Concepts like economic growth, human welfare and management can be understood only in the context of the fundamental requirements of human life.....It is my belief that by setting up a variety of largish projects, a developing country does not necessarily make a dent in the poverty problem. A more diffused entrepreneurial and managerial effort might be the answer. This should require the identification and training of a new kind of manager/entrepreneur." Whilst not touching upon specific issues that were to be considered by the delegates, Dr. Bharat Ram emphasised that "growth without welfare is no more acceptable than welfare which is unsustained by growth."

The purpose of this book is to bring to readers the very profound and expert opinions expressed by professional managers of the world at the Congress. Prof. Peter Drucker, the doyen of world management, delivered the keynote address. Dr. S.S. Ramphal, Secretary-General of the Commonwealth Secretariat, presented the valedictory address. Both these papers have been given as the first and second articles, in the book. Thereafter the papers have been put under the common headings, the sub-themes and topics, under which they were delivered at the Congress. A brief profile of the speaker, and the position held by him at the time of the Congress, have been included to introduce him to the reader.

I would be failing in my duty if at this point I did not acknowledge the active participation of eminent personalities who 'Chaired' the various sessions: Air Chief Marshall P.C. Lal (Retd.), Chairman, Air India and Indian Airlines; Mr. Richard K.M. Eu, President, Singapore Institute of Management; Sir J.A. Thomson, High Commissioner for Britain in India; Mr. Ronald K. Miller, National President, Australian Institute of Management; Mr. Mohd. Fazal, Chairman and Managing Director, Engineering Projects India Ltd.; Prof. M.G.K. Menon, Secretary, Department of Science and Technology, India; Dr. S.C. Bhattacharjee, Chairman, State Trading Corporation of India; Mr. M.K. Raju, Chairman, M.K. Raju Consultants Pvt. Ltd., India; Mr. A. Ray, Chairman, James Warren & Co. India Ltd.; Mr. Kan D. Mariwalla, Chairman and Managing Director, National Industrial Development Corporation Ltd., India; Dr. Charat Ram, Chairman, The Jay Engineering Works Ltd., India; Mr. G.V.K. Rao, Secretary, Ministry of Agriculture, India; Mr. R.K. Swamy, Chairman and Managing Director, R.K. Swamy Advertising Associates, India; Mr. S.C. Budhiraja, Overseas Director, Al Futtaim & Co., UAE; Mr. J.O. Haworth, President, The New Zealand Institute of Management Inc.; Mr. David L. Pank, President, AAMO, Australia; Dr. I.G. Patel, Governor, Reserve Bank of India; Mr. Naval H. Tata, Deputy Chairman, Tata Group of Companies, India; Dr. U. Ruhle, Rationalisierungs—Kuratorium der Deutschen Wirtschafte. V, West Germany; Dr. S.S. Marathe, Secretary, Ministry of Industry, India; Dr. Eric M. Scheid, Honorary CIOS President, West Germany; Mr. Keshub Mahindra, Chairman, Mahindra & Mahindra Ltd., India and Dr. Ram S. Tarneja, General Manager, Bennett Coleman & Co. Ltd., India. Mr. Prem Pandhi and Dr. Minoo D. Daver deserve special mention as they played a leading role in organising the Congress as the then President and Vice-President respectively of AIMA.

It is hoped that this unique and memorable experience, in terms of sheer breadth of the horizons of international communication and interaction that this Congress afforded, will prove to be invaluable to all readers.

New Delhi
August 19, 1980

MR. A.R. SARAOGI
President
All India Management Association

Contents

1. The Issues Facing Management Today and Tomorrow

Peter F. Drucker

Prof. Peter F. Drucker is the most well-known Management thinker and writer of our times.
Born in Vienna in 1909, Prof. Drucker was educated there and in England, and lives in Claremont, California, practising as a management consultant specialising in business and economic policy and in top management organisation. His contribution to modern management thought ranges over 16 books—translated into more than 20 languages—editorial columns in the Wall Street Journal, articles in various periodicals and three well-known series of management films. As keynote speaker at the 18th CIOS World Management Congress, Prof. Drucker made his first visit to India.

Management is a child of this century. The first CIOS World Management Congress took place less than sixty years ago. And at the first CIOS World Management Congress which I attended—the Congress in Paris in 1957—most of the participants, especially the Europeans and the participants from the Third World, were still very skeptical about management. It was something that fitted others, but had very little relevance to them, their own companies and institutions and their own countries. And in those years, the communist countries were quite certain that management was a capitalist invention which had absolutely no meaning for them—and was indeed totally incompatible with anything that could be called "socialist" or "Marxist". As social institutions go, management is thus a mere infant still.

But the child has been growing up very, very fast. Few people today would doubt that management is essential. When some of us, in Paris, dared suggest that management and managers were the essential key resource for economic and social development, we were practically booed. Today, this is commonplace. And the Soviet Union which, only fifteen yerrs or so ago, still considered management a "capitalist heresy" that would disappear with the dawn of communism or socialism, now has institutes of advanced management, publishes books on management, and regularly complains about the backwardness of management in its industries or in the industries of the European satellite countries. Indeed, even in China, where under Mao management was clearly taboo, there is now a sharp shift. If the new communist line in mainland China means anything, it means an assertion of the central importance of managers and management in the development of Chinese society and Chinese economy.

But with this acceptance of management as a key function in society have come ever-increasing demands on the manager. He will increasingly have to satisfy very great expectations. Indeed the greatest expectation in respect to manager and management is that managers discharge the *function of management* in today's society. What then is the basic function of management?

It can be stated simply: Management is responsible for the development, the allocation and the productivity of resources. In nineteenth century liberal capitalism, it was believed that resources developed themselves and are allocated by the "invisible hand". In nineteenth century socialism and twentieth century communism, it is believed that the development of resources is a function of the "system"—which is another form of the "invisible hand". We know better today. Resources are developed by managers, are allocated by managers, and managers are responsible for their productivity. It is, above all, productivity which is the first mission of management and its first responsibility. And the management task today, and increasingly the management task of tomorrow, will centre on the productivity of resources.

Yet very few of us in management take this responsibility seriously enough. And few of us are willing to make sure that our societies understand that this is the function of management. It is a new function, and one that needs being explained, being understood and, above all, one that needs to be practised effectively.

Resources are not made by nature. They are made by man. And this is particularly true of two key resources—the human being and capital. Indeed, the human being as such is not a "resource". He becomes a resource only if trained, developed and allocated to productive work. This is a central task of management. It is particularly important in developing countries. There are many people in developing countries, in some of them, perhaps more than can be productively employed. But there are far too few productive human beings in developing countries. It is the essence of being a developing country that effective, productive, competent people are in very short supply. One of the central management tasks in a developing country is development of people into human resource—a task of training, of developing, of managing. It requires that managers seriously work on managing work. We know how to do this. In fact, it was with the discovery that work can be managed and needs to be managed that the history of management begins. Far too few of us take seriously our responsibility for managing work; for analysing it; for thinking through its constituent parts—whether the work is manual work or knowledge work; for synthesising the work into a job; for providing the tools and the information and the feedback to the worker from the results back to his activities. But we also need to practice managing the worker—and this is something totally different, and something that requires increasingly that we demand responsible participation from the individual worker, whether he be skilled or unskilled, manual worker or knowledge worker.

We are not doing enough to make the human resource productive. We are guilty of far too many sins of omission.

When it comes to creating the other resource—capital—we are again guilty of far too many sins of omission. In many ways, capital is perhaps even more crucial, especially in developing countries, than the human resource. And capital can only be obtained by providing a surplus from today's production over today's costs—otherwise, capital formation cannot take place. Capital formation may be the crucial factor in the development of developing countries. It is also the crucial factor in the continuing prosperity of the developed countries. Yet we in management have made it almost impossible for our fellow-citizens in our nations to understand the importance of capital.

We have been guilty of grossly misleading our societies—and then we complain that they do not understand what we are doing. As long as we in management keep on talking nonsense about "profits" we will make it almost impossible to have capital formation adequate to the needs of our societies. There is no such thing as "profit"; the very word is a misunderstanding. There are only costs of the past and cost of the future. And the greatest cost of the future is not even the risk of economic activity with its inherent uncertainties. The greatest cost of the future is the capital needed to provide the *jobs* for tomorrow.

Everyone of us knows that there are no jobs unless we can invest a substantial amount of capital. Even in developing countries, in which a good deal of activity is, and should be, labour-intensive, the capital cost of a new job is very high and is going up rapidly. In fact, you may well say that the greatest drawback, the greatest weakness of developing countries in their desperate search for employment opportunities, is the lack of enough capital to create jobs. The consumer demand is there—what is lacking is the capital to create the jobs which in turn would create the goods to satisfy consumer demand. As long as we talk about "profits", we obscure understanding. What we need to talk and talk increasingly, is the need of our society for adequate capital formation for the jobs of tomorrow.

The place to begin is one's own company, one's business. Is one actually forming enough capital for the needs of tomorrow? One can, with considerable probability, figure out the minimum profitability of a business needed to satisfy society's demands for capital formation. There is risk premium needed to defray the insurance costs for the uncertainty of economic activity and the uncertainty of committing today's scarce resources to an unknown and unknowable future; there is the capital needed to replace today's equipment and today's methods by new and better equipment and methods; and above all, there is the capital needed both to create the job needed tomorrow both to maintain the market position of the business and to enable society to grow and to develop. I am quite sure that any business represented here today, if it were to think through and work out its future capital needs, would discover that it does not operate at a "profit". It operates at a deficit. It probably even fails to cover the genuine cost of capital. And by now we know that there are no resources that do not cost something. There is a genuine cost of capital—and it is high. It is the minimum a business has to earn to discharge its social responsibility. But over and above the cost of capital, there is the need to create enough new capital stock to provide for the capital needs of society and economy of tomorrow—and especially to provide the capital needed to create the jobs of tomorrow. A management that does not operate with high enough profitability in its business to provide for the capital needs of its society tomorrow is clearly remiss in its social responsibility and clearly guilty of depleting and destroying the resources committed to its keeping.

Then comes the second responsibility in the management of resources: the responsibility to employ them for results, to employ them for productivity. This is the entrepreneurial function of management. We all know that it is the function of the entrepreneur to move resources from less productive to more productive employment. This, of course, implies the need to think through what our business is, what it is not, what it should not be. But it then also increasingly implies the responsibility to organise abandonment of businesses, activities, markets and products which no longer produce, and which no longer serve. The abandonment function is not popular today—it never has been popular. Every human being, and certainly every adult human being, likes to cling to the known, familiar, and traditional. Yet it is the function of management to put every market, every activity on trial for its life ever so often—maybe every three years—and to ask: "Knowing what we now know, would we still go into this product, this market, this activity today?" And if the answer is "no", don't say "Let's make another study." Say instead, "How fast can we get out?" It is your responsibility to put resources, and especially the scarce resources of competent people and of capital where the results are.

But increasingly, the responsibility to employ resources where the results are will mean that management, both in developing and in developed countries, will have to learn to manage "production sharing". In all developed countries, including the developed countries of the communist world, that is European Russia and her European satellites, we face a major shortage of people to do the traditional jobs—especially traditional labour-intensive manufacturing jobs. It is not a matter of wage cost primarily. It is a matter of the availability of people, both because birth-rates in the developed countries are so very low, and because so many of the young people in the developed countries go in for higher education and thus become basically disqualified for traditional work.

In all developing countries, on the other hand, we face fifteen to twenty years during which there will be an incredibly large supply of young people qualified for little but the traditional labour-intensive jobs in manufacturing. And in most of the developing countries, the only way these young people can possibly find employment is in manufacturing for export. There are only a very few countries—India may be one of them—in which there is a potential domestic market large enough to absorb the output of masses of new young workers, workers who need jobs and who are easily trainable for the traditional manufacturing work. In the rest of the world manufacturing jobs and jobs in export industries, will mean increasingly that the world will see a new pattern of economic integration—a pattern that I have called "production sharing". You already see it all around you. Here is the large European textile manufacturer, a German/Dutch company, who spins, weaves and dyes in the Common Market and then airfreights the cloth to such countries as Morocco or Algeria or Thailand, where the cloth is converted into suits and shirts and rugs and bedding, to be airfreighted back and sold in the Common Market. There is the American shoe retailer—the largest shoe retailer in the world, perhaps. The hides to make the leather tend to be American, if only because America has the largest livestock population. They are being shipped to Brazil to be tanned and made into leather there, to be shipped to such places as Haiti and the British Virgin Islands where they are being made into shoes, to be assembled into finished shoes in Puerto Rico, for sale in the American market and for export to Europe. And so it goes—with the electronic industry perhaps the foremost practitioner of "production sharing".

Increasingly, we will have to learn to manage a system under which the developing countries will find employment for their abundant resources of young trainable people in production for export in those stages of production that are labour-intensive; while the developed countries will furnish management, technology and capital and, above all, the markets.

Increasingly, the multinational company of tomorrow will be a marketing company rather than a manufacturing company. It will sell where the markets are, and this means primarily in the developed countries. But it will have the goods made where the work force is—that is in the developing countries. And thus, production sharing will increasingly become a major managerial task—both in the developed and in the developing countries—and one that requires close cooperation between the two.

Finally, there is the task of making resources productive. Insofar as we are talking of human resources, we face the challenge of placing people, assigning people, of putting them where their strengths can be productive. The one advantage modern organisation has is that it is the one design known to us that is capable of making human strengths productive and human weaknesses irrelevant. A genius at production, all by himself, is incapable of producing results. He does not know how to sell and he cannot read the simplest financial statement. But you do not have to have a very large organisation before you can give this person a salesman who can sell the stuff he can turn out, and a book-keeper who can at least keep the books straight. And then it does not matter that the production man does not know how to sell and does not know how to add and to subtract—what then matters is that he knows how to produce. This is what "organisation" means. And so we in management will increasingly have to face up to our responsibility for putting people where their strength will be productive and where their weaknesses do not really matter very much. This, let me emphasise, is particularly important in developing countries where the human resource is in such short supply. There you have to work twice as hard at putting people where they can really produce results. There you have to go through your organisation at least once a year—I like to do it twice a year—and ask: "Are the people in the organisation who are capable of performance where they can really perform?" And there you have to make sure that you ask everyone of the people in your managerial, your professional, your technical organisation, at least once a year: "What do we, in this organisation and especially what do I as your boss, do that helps you do the work you are being paid for?" and "What does this organisation, and I do that hampers you?" And then do more of what helps and get rid of what hampers. It is the responsibility of the manager to enable people to perform. It is the responsibility of the manager to make resources productive.

This also applies to the other resources—especially to the resource that is capital. It is the manager's responsibility to put capital where it can produce results, and to withdraw capital where it cannot produce results. One feeds opportunities and one starves problems. One does not use money as a substitute for thinking—something that is all too common in organisations, and especially in large ones. Accept the fact that, of all the resources we have, money likes to be exploited. Money does not get tired. Money does not charge overtime. Money does not join unions. Money does not need vacations. Money likes to work seven days a week, twenty-four hours a day. And the harder you work money, the better money likes it. So go to work on making resources productive—and especially on managing capital; capital is going to remain scarce for the rest of this century.

I am always being asked what objectives I would set for businesses. Now clearly, every single individual organisation needs to think through its own objectives. There is no general prescription. But there is one prescription for all organisations—and not just for businesses, but for hospitals and universities and government agencies as well. Five to ten years from now, you should be able to do twice the amount of work you are doing, without adding a single person to the payroll. Ten years from now, you should be able to have double the productivity of the human resource. And you do this mainly by working on the development of people and by working on their assignments. And ten years from now, you should be able to do at least twice the amount of work you are doing now without putting in one additional penny of capital.

It will be felt that this is "impossible". No, it is not "impossible". It is only difficult. For the fact of the matter is that in every single country and in every single industry, the leaders already operate at twice the productivity of both the human resource and the capital resource at which the average operates. And what one man has done, another man can always do again. And if the leaders in your country, as well as in mine—and in all other countries—already operate at twice the productivity of the key resources at which even organisations that consider themselves "well-managed" operate today, then doubling productivity is not innovation; it is not genius; it is not creativity. It is simply hard work. For what one man has done, another man can always do again by working hard.

There is one additional task, and it lies well within the definition of the function of management as that organ of society responsible for resources and their productivity. That is the productivity of management in the public sector—in hospitals and universities and schools and government agencies.

Twenty years ago, when you talked about management in the public sector, you were considered somewhat of a lunatic, or at least very eccentric. Public service institutions, it was believed, produced because of their good intentions. Today, we know better. At the same time, in every country the public sector increasingly employs resources; increasingly absorbs highly trained people and scarce capital; and increasingly has to satisfy fundamental expectations of our society. Increasingly, therefore, management in the public sector is becoming a priority task of management.

We know a good deal about managing in the public sector—but we do not do much about it. In part, this is because we are not willing or able to abandon anything in the public sector. In the private, the business sector of the economy, we are forced to abandon, especially there are even rudiments of a market system still in place. But in the public sector it is exceedingly difficult to abandon anything. Yet it is true that whatever is being done in the public sector is forever. We, in the United States for instance, will very soon realise that the proud achievement of the nineteenth century, the Postal Service, is obsolete. It simply makes no sense to transport half a pound of paper for the sake of one gramme of ink that is put on it. Electronic transmission is both infinitely faster and infinitely cheaper, and infinitely more reliable. And in a developed country, such as the United States, everybody has the tool to transmit and to receive graphic communications at practically no cost—everybody has either a television set or a telephone or both, and both are basically printing equipment. And so the postal system of which the nineteenth century was understandably so very proud, is rapidly becoming obsolete. But the same goes for a great many other things which the public sector performs.