# MANAGEMENT FOR DEVELOPMENT: NEW RULES FOR AN OLD GAME?

## The Manager in a Developing Economy

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As participants in a developing economy, we need well-defined goals against which to measure progress. We also need government guidelines and priorities related to those goals, capital, manpower training, and entrepreneurship.

Management is an activity which seeks to gather and coordinate resources towards specific objectives. All managers do this, but the manager in a developing economy must be continually learning, revising, following unforeseen changes in the setting.

For survival in such an environment, study of alternative options and proper choosing of the best of them is essential. This calls for dialogue between the private and government sectors, for which a formal mechanism would be very helpful. Similarly, contact must be kept with the way ordinary people in the society are thinking. In such an economy, in fact, it may be more important to know people than systems.

I am a manager in a developing economy. This being the case, when Maria Gonzalez-Goolsby asked me to express a few thoughts on the subject, I said to myself that there should be no trouble in doing so. That was a mistake. The mere doing of something does not necessarily mean proficiency in communicating what it is you are doing. And so, let me ask a few basic questions to see what the manager in a developing economy is trying to do.

What do we mean by a developing economy? It is an economy at an early stage of industrial growth. In the Philippine economy we are very much dependent on agriculture. We want to build more factories and industries. Our people do not have much income and there are many of them in this state. Unfortunately, our skills may not be those needed for industrial growth. We certainly do not have enough money and the little that we have has to be allocated among such divergent but necessary projects as steelmaking and garbage collection. We are still very much dependent on exporting our raw materials and importing manufactured goods, a carryover of colonialism. And we face political and social uncertainty.

What problems do we face as a developing economy? We have to have some well-defined goals towards which our society can progress. This is very basic but I suspect that we do not have a clear, consistent definition, let alone understanding, of our national goals. Progress is measured against known yardsticks. Without our goals, how can we tell whether or not we are enjoying the fruits of progress?

We also need specific direction to determine which activity should be encouraged and which should be discouraged. On the level of government, we need intelligent guidelines, rules and regulations so that the little that we have can be placed in those activities which we, as a country, feel we should be engaged in. And even if we are able to borrow large supplies of capital for development, a decision is necessary for choosing, say, irrigation or electrification or industrialization. The manpower capability has to be reoriented, retrained and, in certain instances, even brainwashed so that it can be brought to bear on the requirements at hand. And entrepreneurship, which is the starting point of industry, needs continuing stimulation through many special inducements.

Stated simply, our problems are to provide our people with jobs and income, to produce the desired goods and services and, by doing all this, hopefully to develop a strong consumer base upon which our industries can grow some more.

How can a manager play an active role in development? Management is an activity which seeks to gather and coordinate resources towards specific objectives. It can take manpower, capital, and physical resources and turn out the goods and services our society needs. It can provide jobs for people who, incidentally, will be trained in new skills. It can turn out products to enhance consumer satisfaction. And it can do this in the high priority areas of the economy, provided we know the direction we should take. Every manager can do these things, whether he be in a developing or developed economy. But the manager in a developing economy faces some problems which may be unique to his setting.

The setting in which we live is such that the economic conditions are evolutionary and revolutionary. The economic direction is subject to many changes. We are all engaged in one big learning process and, unfortunately for us, together with the task of learning what to do, the environment around us, namely, the other countries and other societies, continually take action which influences our own activities. The act of development needs guidelines, rules and regulations but because of the rapidly changing environment, these constraints need to be revised constantly.

The changing constraints contribute to an uncertain environment and, sometimes, we say that it is difficult to plan and act under these conditions. But I would like to think that a management which is faced with this situation looks at it as one which presents many opportunities to undergo changes and developments in his company. The manager lives in a competitive environment within his own industry. If he is faced with uncertainty, every other manager in that industry is also faced with the same uncertainty. If he uses his mental and physical capacity to the limit and, hopefully, comes up with relatively more correct decisions, he will convert problems into opportunities. The requirement for success in a highly uncertain situation is being able to develop many options and judging their likely effects before applying the one option which will best satisfy the circumstances.

In some instances, the uncertainty cannot be controlled within an industry. When this occurs, the manager must dialogue with the planners of our society. Managers are mostly implementers. It is government which sets direction and lays down guidelines. And in carrying out its responsibility, it may want to listen to a few ideas, consider and evaluate them before formalizing its position. Surely, the managers who are in the thick of everyday reality can contribute greatly by providing government with practical considerations which may not be immediately obvious to one who takes a broad (as against a detailed) view of our environment.

Is there a mechanism in our society which may formalize this dialogue between government and private sector managers? If there is one available, it is not easily recognized. And if there is none or if there are myriad informal communications links, then the government and the managers should consider it their joint responsibility to build a new set of links. Communications seldom hurt the parties concerned. It is when there is little or no communication that misunderstanding and misinterpretation take place.

While the manager is dialoguing with the government, he also has to maintain constant rapport with the people in his society. In an uncertain situation, if he does not keep himself informed of what the people are thinking, feeling, and experiencing, he may well be in for surprises.

Corporations in developing economies must learn to adapt to the uniqueness of the situation. Marketers, for example, should design products and promotion which take into account the two-tier economy we live in. Although there are highly urbanized segments of society, there are many more rural, downscale communities.

The approaches to these two segments, living side-by-side though they are, may be entirely different from each other. Distributors must contend with helping to build necessary ancillary facilities such as warehousing, transportation, communication, sometimes even roads and highways, and, certainly, security services. Personnel managers must face up to some amount of paternalism (if this is the common western term for taking care of your people without having to negotiate legally, and instead extending what you can as much as you can). Project planners must frequently decide on capital-intensive as against labor-intensive options for given projects.

These examples of how a manager acts in a developing economy point out an important feature of our society. In a developed economy, there is so much organization and system that "people" considerations become relatively less important. This is not the case in our economy. Since the rules are constantly changing and, therefore, organization and system are not so stable, the foundation for action must be people. And the manager must see this if he is to understand his society.

I suppose that there is really no other choice for the manager in a developing economy but to talk to the relevant sectors of society, listen to their thoughts, and understand their experiences, if he is to play an active role in development. As long as he remembers that people are more important than systems, he will succeed in our society.

*Note*

This is the revised version of a panelist's paper presented on March 2, 1972, in the public lecture series, "Social Issues '72," at the San Miguel Auditorium, Makati, Rizal, under the sponsorship of the Philippine Sociological Society, Inc. Mr. Gatchalian, who is currently president of United Laboratories, Inc., is a graduate of Carnegie-Mellon University (M.S. in industrial administration, 1964).

## Management in a Developing Society is Different

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**Considered here are three variables which contribute to differences between the management task in a developing society and the same task in a developed society. These factors are (1) environmental uncertainty, (2) unrestricted inputs, and (3) operative value systems. Each of these variables has implications (not discussed here) for the education, development, selection, measurement, and motivation of the manager.**

I want to address myself to differences in the management task in developed and developing societies and to some of the variables that contribute to these differences.

We who are in the field of business education are vitally interested in these differences, if they do in fact exist, because they are central to the issue of relevance.

Of the many potential variables we could consider I have chosen only three. Time constraints do not permit a more extended development of the subject. These three variables are (a) environmental uncertainty, (b) unrestricted inputs, and (c) operative value systems.

We will look briefly at each of these variables and see how they affect the management task in developing societies. Implicit in the approach is the idea that differences in the management task may require different educational and developmental approaches, different selection criteria, different performance-measurement and motivational systems.

### *Environmental Uncertainty*

The environment of a manager in a developing society is more fraught with uncertainty than that of his counterpart in Europe or the United States. Many factors could account for this, but we will select only a few.

Among the most important of these factors is the relative absence of an information-gathering, -processing and -organizing infrastructure. What is the potential demand for wood tiles in 1972? What is the credit history of lawyers as a professional group? How many kilos of mangoes are produced annually in this country? How difficult will it be to employ 200 seamen next year? These questions can only be answered approximately. One manager was asked: How approximately? He replied: Very approximately.

Hand-in-hand with the absence of an integrated information-producing infrastructure is the relative lack of competence in handling information that does exist. A well-known marketing executive claims that most Filipino enterprises are sitting on a mountain of valuable information and do not know it, or if they know it, are in no position to exploit it.

Another factor that contributes to uncertainty is the manager's remoteness from developments that will vitally affect his function. A conference of specialists on environmental pollution in Springfield, New York, may well have serious repercussions on the sugar industry in this country six months later. The development of a new antibiotic in Holland may shake up the local drug industry within a year.

The manager in a developed society, on the other hand, is closer to the scene of the action and is supported by information systems that give him sufficient reaction time to cope with rapid environmental change.

A third factor is unpredictable, often ambiguous, certainly changeable government policies, themselves the results of attempts to cope with environmental change. These add a very strong element of uncertainty to the planning premises of a manager in a developing society.

These uncertainties translate into more volatile plans and programs, shorter planning horizons, and unreliable feedback systems. They translate into higher risk and result in higher ROI requirements and shorter payback periods. They translate into imitative entreprenuerial strategies that often result in overcapacities and poorly-allocated resources. They also translate into non-synergistic growth patterns: an entrepreneur successful in resort hotels may next try his hand at rope manufacture. Finally, they translate into and support such local phenomena as the *ningas kugôn* mentality and *bahala na* attitudes. When the level of uncertainty rises beyond our tolerance levels we perforce turn to magic.

### *Unrestricted Inputs*

We mentioned earlier that a manager in a developing society has no control over developments abroad that may significantly affect his function.

It often is possible, by government policy, to restrict the entry of a new product or a new brand in the local market. It is often possible to restrict the adoption of new processes: for example, automated systems as opposed to less efficient but more labor-intensive processes. But how do you restrict the entry of new ideas and new aspirations that may be dysfunctional to the current stage of economic development?

How are we, for example, to restrict the entry of the concept of the four-day week? Or, to put it more realistically, the three-day weekend? How are we to restrict the very attractive idea of participative management from permeating an enterprise that because of its size, its competence, its markets, or its technology still needs centralized decision-making processes?

These inputs to which we are exposed every day result in attitudes and desires that result in behavior that results in change – or at worst, conflict. And so change often takes place without pattern and sequence, and development is often disjointed.

The manager in a developing society must deal with change in a manner that was never required of his counterpart in Europe and America.

### *Operative Value Systems*

All developing societies are in transition from a traditional, agricultural to a modern, industrial economy. Their values too are in transition.

Value systems that are supportive of traditional agriculture are often dysfunctional to modern industry. Paternalism and nepotism, practices that bind people to land and ensure its development, are usually inimical to the creation of an aggressive management team. Concepts of time, work rhythms, and interpersonal relationships that are necessary to the working of a farm may be destructive in a factory.

Yet the manager in a developing society must often work in both environments simultaneously: you may almost say he must exist in two different centuries at the same time. This can rarely be said of a Belgian, or a German or a Canadian manager, who seldom finds himself at odds with his own culture.

These three elements of the managerial task that we have described this afternoon, the management of uncertainty, the management of rapid and erratic change, and the management of cultural diversity and conflict are only a few of the many differences that seem to distinguish the manager in a developing society from his counterpart elsewhere. If you wish you can make out your own list. You will easily find one or two dozen such variables.

Having identified these variables, the next step in the process will be to ponder their implications for the education, the development, the selection, the measurement, and motivation of the manager. This will have to wait till a later day.

### *Note*

This is the revised version of a panelist's paper presented on March 2, 1972, in the public lecture series, "Social Issues '72," at the San Miguel Auditorium, Makati, Rizal, under the sponsorship of the Philippine Sociological Society, Inc. Mr. Salazar, a graduate of the Harvard Graduate School of Business, is a professor at the Asian Institute of Management.

## The Managerial Entrepreneur: Necessary Catalyst For Development

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Three key concepts (management, development, and entrepreneur) are defined before a discussion of (1) the role of the Private Development Corporation of the Philippines, and (2) selected characteristics of Filipino entrepreneurs. Business-school faculties and administrators are urged to examine their curricula with care, and to consider as well the extent to which their textbooks and research activities are related to the Philippine scene. Only if they are can these schools hope to fulfill the function of at least *trying* to develop the entrepreneurial ability latent in students.

The theme for this session is "Management for development: New rules for an old game." However, since each speaker is free to define his own terms of reference and limits of discussion, I shall confine myself to two major areas; namely: (1) the developmental role of the Private Development Corporation of the Philippines; and (2) the education, experience, problems, and orientation of Filipino managers and entrepreneurs. It is not my intention to provide solutions to the problems that are brought out here, but possibly to plant seeds for thought in the minds of those who are in a better position than I am to improve the situation.

### *Definition of Terms*

First let me define my terms of reference. *Management* will here be divided into two broad areas. One may be referred to as macro-management. This is mainly concerned with the area of economic policy and public administration. Its principal consideration is the efficient conduct of the entire economy. The second area of management may be referred to as micro-management, or management of individual enterprises. Peter Drucker (1954: 3) aptly describes the manager of private enterprises as "the dynamic, life-giving element in every business." This paper will limit itself to a discussion of problems in the management of individual enterprises.

The term *development* may be defined according to the "New Approach to Development" of the World Bank, which is increasingly characterized by a growing emphasis on the social aspects of growth. Robert McNamara (1971: 29) pointed this out in his address to the World Bank's Board of Governors: "Development has for too long been expressed simply in terms of growth of output. There is now emerging the awareness that the availability of work, the distribution of income, and the quality of life are equally important measures of development."

A key factor in development must also be defined: the *entrepreneur.* Father John J. Carroll S.J., defines the entrepreneur (1965: 19–20) as "the individual who performed the *overall coordinating function* in bringing together the traditional factors of production – land or natural resources; labor, including technology and management as well as labor in the usual sense; and capital – to form a new industrial enterprise."

This definition calls to mind an anecdote I heard recently. It was about an executive looking for a secretary. The initial company screening and selection process resulted in personnel's coming up with three young and pretty candidates. The company personnel manager (a Ph.D. in psychology) volunteered to assist in the final selection with a simple test.

He asked the first young thing, "What does two and two mean to you?" The answer, "Four." The same question was asked of the second lady, and the answer was "Twenty-two." The third girl was asked the same question and her answer was, "It depends." On the basis of these answers, the psychologist proceeded to interpret to the executive the personality characteristics of each girl. He ended up by asking the executive, "Well, who will be your choice?" Without hesitation the executive answered, "I like the young thing in the red micro miniskirt." In this case, the executive seemed to show entrepreneurial traits.

### *The Role of the PDCP*

The Private Development Corporation of the Philippines (PDCP) is said to be a cross between a development bank and an investment bank. The World Bank has appropriately named our type of financing institution a development finance company. It is privately owned (about 1,500 stockholders) and privately managed. The PDCP acts as a catalyst in the country's development financing system, and is a principal agent in propelling economically desirable industries to production in the fields of industry and agriculture, and encouraging other productive ventures.

Forming part of its development-financing function are the granting of medium and long-term loans; contributing equity capital; guaranteeing obligations; arranging group financing and joint ventures; undertaking public offering or placement of securities; and providing technical and management advisory services to its clients.

As of the end of 1971, the PDCP had loaned out a total peso equivalent of ₱314 million to 168 projects. As of this date, the corporation has not written off a single account. This does not imply, however, that we are without our problems.

*Problem firms.* Using their 1970 financial statements, we recently ranked our client firms according to sales revenue – which, by the way, showed a close correlation to total assets. Our suspicion was confirmed that all the problem accounts belonged to those firms which ranked among the lower 30 percent. Another way of stating this is that problems were most prevalent among the smaller companies.

Added to this was the fact that 80 percent of the accounts were new ventures, while only 20 percent were for project expansion.

Taking a closer look at the educational background of the key operating executives revealed the following:

1. 10 percent were Bachelors of Science in Commerce;
2. 20 percent were Bachelors of Science in Civil Engineering;
3. 10 percent were Bachelors of Science in Mechanical Engineering;
4. 10 percent were Bachelors of Science in Agriculture (but engaged in purely industrial ventures); and
5. 50 percent did not specify what degrees they had.

There were indications that a large number of these key executives never had formal training in business or management. Further, 40 percent of these important operating people, who were also key policy-deciding executives, seemed to fall within Carroll's definition of an entrepreneur. They were all individuals who performed the overall coordinating function in bringing together the traditional factors of production to form a new industrial enterprise.

What was most revealing though was an analysis of their managerial or leadership styles. They all followed the pattern of autocratic, owner-manager leadership commonly found in a single proprietorship. The organizations were highly centralized, paternalistic, and, in 60 percent of the cases, there was an obvious gap between top management and the next managerial level. In other words, the top man did not have a trusted and competent second-in-command. There did not appear to be any provision for succession.

Although all the above accounts were incorporated, 90 percent did not have regular, formal Board-of-Directors meetings. Frequency averaged once a year, and this meeting was held more for record purposes than for anything else.

*Successful firms.* Looking at the other side of the scale, a vast majority of the successful accounts showed evidence of having a competent management team overseeing its operations. They commonly made use of professional managers and hired expertise in areas beyond their competence. Their profile seemed to be the opposite of what we found regarding problem accounts.

Of course, the above findings are not necessarily characteristic of problem businesses throughout our entire economy. However, the description we have given is paralleled by data on small business failures gathered by the Ateneo Bureau of Small Business.

*Managerial Talent: Its Training and Market*

This brings us now to the next area of discussion. Deena R. Khathate, International Monetary Fund advisor on central banking, wrote a very interesting and revealing article entitled "Management in developing countries" (Khathate 1971: 8). He stated, and I quote:

> In a large number of developing countries in Asia, such as India, Pakistan, Ceylon, the Philippines, and in some Latin American countries, such as Argentina and Brazil, there is no dearth of managerial ability as such, i.e., persons of good natural ability and general education. Yet these potential managers have not been able to contribute to the improvement of their national growth performance as much as they could have if they had been sufficiently oriented toward accomplishing their principal tasks.

In the later part of his article he stated that managerial ability in developing economies has been wasted. I tend to agree with his observation.

Waste here seems to be in the direction of underutilization of business school graduates. For instance, business graduate schools seem to concentrate on training their students for employment in existing organizations, or enhancing their promotability within the organizawhere they belong. There is a tendency for outstanding graduates to be absorbed by a handful of leading business firms already bulging at the seams with managerial expertise, while the mortality rate of entrepreneurial-type businesses continues to rise.

Khathate also raised the question of whether or not the management technique as found in developed countries should be imitated with little modification.

A look at our own system of business education seems to indicate the presence of the adoptive process with little modification. College textbooks on business are mostly of foreign origin. There is a dearth of business textbooks and articles written by Filipinos about existing Philippine conditions. Rather, our business education seems to be limited to the transfer of available imported information to the student's memory bank. I realize that this may sound like an exaggeration, but it may not be farfetched as a description of the average practice of business schools throughout the Philippines.

Philippine business research has unintentionally been kept to a minimum. We tend to accept and rely on foreign empirical studies of business. We lack a deliberate and systematic program for business research, organized by business-schools administrators.

There is evidence of a tendency to pattern local business curricula after those of pretigious foreign business schools. This is done apparently with little concern for the distinct social, political, and economic climate of our country.

For instance, the initial members of the Harvard Advisory Group on Business Education developed a graduate curriculum closely patterned on that of the Harvard Graduate School of Business and recommended it to the leading local business graduate schools. I know for a fact that one school adopted the curriculum and then after two years had to revert to its previous curriculum. The faculty found that the new one was not relevant to our times, to our kind of students, and to our kind of climate.

The time may be appropriate for business school administrators to begin rethinking their school's orientation and direction. They have to develop a curriculum that is relevant to the needs of their market.

### *The Need for Managerial Entrepreneurs*

Let me move on to the subject of the Filipino entrepreneur. I would like to quote Professor Frank H. Golay in his Foreword to Carroll's book (1965: ix), cited earlier.

> Once the decision is made to rely on an enterprise type of organization, economic growth will be critically dependent upon the quality and quantity of the entrepreneurship that emerges in the society. A significant number of individuals must emerge in response to strong incentives to establish enterprises – individuals motivated to produce rather than consume. Only if entrepreneurship adequate in quantity and quality appears is such an economy likely to produce economic growth sufficiently rapid to submerge the social tensions inherent in the gross inequalities on which such a system is based.

It may be worth noting that in the Philippines, the entrepreneurs are found most frequently among the small and medium-sized enterprises. Robert Holtz, Secretary General of the International Federation of Small and Medium-Sized Industrial Enterprises (based in France) says (1969: 161) that

> in every country in the world, whether it be highly industrialized or in the process of becoming so, we find that small and medium-sized businesses always account for at least 50 percent of the gross national product, 50 percent of employment, and in most cases these figures are as high as 70, 80 and even 85 percent. In other words, economic development proceeds through the development of small and medium-sized enterprises.

The World Bank's social-oriented policy also takes cognizance of the importance of small-scale industries in the overall economic growth of a nation.

The PDCP has itself of late recognized the importance of this group and it has, since February of this year, opened up what may be referred to as a Small Loans window for small-scale productive enterprises.

There is one problem, however, that stands out over the rest. Do we have an army of qualified entrepreneurs to carry out these projects? Other similar questions now appear on the surface. Can a nation adopt a deliberate program of developing entrepreneurs? Can entrepreneurial material be introduced into business courses? Starting with the young, what can be done to stimulate and develop entrepreneurial ability among students? Can creative entrepreneurship be taught at all?

There is only one thing we are sure of. The curricula of our business schools today are not geared to developing entrepreneurial abilities among students. What we would want to develop is what may be called "managerial entrepreneurs" – individuals who are willing to take calculated business risks and stand a very good chance of succeeding through the use and application of managerial techniques for running an efficient business enterprise.

What is the missing factor that can help us develop these creative managerial entrepreneurs? Is it a matter of developing managers to be entrepreneurs or developing entrepreneurs to be managers?

What role should business schools play in the training and development of managerial entrepreneurs? Should they begin to reorient their curricula to satisfy the demands of a developing economy?

Professor David C. McClelland and his associates at Harvard University have done admirable work in the field of "motivating economic achievement." Their program in achievement training for economic development, undertaken in Curacao, India, Mexico, Tunisia, Uganda, and the United States, has yielded impressive results, they claim, indicating that "achievement motivation can be developed through training; the training can stimulate considerable economic activity; and the impact of this training can continue at least two years without significant diminution" (Behavioral Science Center n.d.: 2).

We would not want to lean on the government for support in this area, but Carroll (1965: 203) rightly raises the question: "What then are the circumstances over which the policy maker has some control and which are likely to contribute to the development of a body of indigenous manufacturing entrepreneurs?"

### *Conclusion*

In conclusion, experience indicates that a weakness in our planning strategies is the placing of little importance on the development of managerial entrepreneurs. Khathate has mentioned that many of the developing countries, even when endowed with adequate capital and surplus labor, have faltered in their quest for rapid economic growth because they ran short of the essential ability to use those factors in the most efficient manner possible.

A big challenge faces all of us. We have to find some way of harnessing and developing this vital part of the development process – this agent of change, a necessary catalyst for economic development – the managerial entrepreneur.

### *Note*

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