INDUSTRIAL MANAGEMENT
—the Socialist Way

An Essay designed to provoke discussion

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NOTE.—This pamphlet, like all publications of the Fabian Society, represents not the collective view of the Society, but only the views of the author. The responsibility of the Society is limited to approving its publications as embodying facts and opinions worthy of consideration within the Labour Movement.
FOREWORD

This pamphlet is concerned with industrial management in a Socialist economy. It examines the Socialist conception of the purpose of industry, and the way in which the conception is being brought into being. In particular, it deals with the private sector of industry which, it assumes, will continue, for some time at any rate, to be a substantial proportion of the total economy. Against this background it attempts to assess possible developments in management: in short, this pamphlet is about industrial management—the Socialist way.

THE PURPOSE OF INDUSTRY

The Socialist conception of industry is that it exists to serve the community. There are a number of factors which enter into this conception. First, there is the idea that industry must serve the community by playing its part in maintaining full employment. Second, there is the idea that industry must produce the most useful and satisfying goods. Moreover—and this is the third factor—industry must be efficient in production so that the general standard of living may be raised. The fourth factor is that industry must provide the fullest opportunity for each individual who works in it to develop his own capacity for service. And finally there is the idea that there are times when industry best serves the community when it takes a long view of its responsibilities and ignores immediate financial costs in favour of social costs. We cannot omit any one of these factors or pursue any one of them exclusively, or with such emphasis as would amount in practice to an exclusive pursuit, without upsetting the whole conception of industry as the servant of the community.

Mr. R. A. Butler states the Tory conception of the function of industry as follows:—

"The idea of industry generally held to-day is very different from the idea of fifty or even twenty-five years ago.

1 Management in Industry: Report on Conference organised by the Conservative Political Centre, April, 1948.
The emphasis then was on the commercial purpose of industry. To-day it is the social purposes of industry which are emphasised—the idea that it exists and works for the benefit of the community.”

Thus, Mr. Butler says in fact that there are two purposes of industry, a commercial one (a euphemism for profit-making) and a social one. This is what Mr. Butler says, but is this what Mr. Butler means? Even if we regard each business as a separate unit, without taking into account its relationship with other undertakings, it is difficult to think of profit-making as a purpose. As one writer and practitioner in management has put it, “profit can no more be the objective of business than betting is the objective of racing, making a score the objective of cricket, or eating the objective of living.”

Once industry is thought of as an integrated whole, it becomes quite impossible to think of profit-making as a purpose. It is as manifestly absurd to say that the purpose of the furniture industry is to make profits for Messrs. A. and B. as it is sensible to say that the purpose of the furniture industry is to provide a furniture-making service for the community. What Mr. Butler regards as a difference in emphasis is a difference in character. His two views of the purpose of industry cannot be held at the same time. May we not conclude that the Tory idea of industry is not really different from what it was twenty-five or fifty years ago, and that, whatever political concessions are made to the current management philosophy about the matter, profit-making still remains its real purpose according to the Tory point of view?

In the Socialist conception of industry, industrial management means more than the management of particular undertakings engaged in industry; it is concerned also with the relationships between one undertaking and another, and the relationship between all business undertakings and the Government. If industry is thought of in this way, it is easy to understand why in a Socialist economy the Government “has gone into business management and become general manager of the national economy.”

Socialists advocate this change of role on the part of the Government not simply because of our present straitened circumstances; they advocate it not only because the small margin between national economic survival and disaster

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*1 L. Urwick. Elements of Administration.*

*2 Sir Oliver Franks: Central Planning and Control in War and Peace.*
INDUSTRIAL MANAGEMENT—THE SOCIALIST WAY

requires a more conscious method of organising our resources than the application of general stimulants and deterrents or the manipulation of the interest rate or the building up of budget surpluses: not for these reasons alone, but because their conception that the purpose of industry is the service of the community, and their conception of the nature of industry as a reciprocal relationship between undertaking and undertaking, and between Government and undertaking, requires that the Government should take on the role of leader and not onlooker if the service of the community is to become the common end of all industrial activity. It is as if the Tory thinks of business as a number of merchant ships pursuing different courses and being merely prevented from unfairly ramming each other, while the Socialist thinks of it as a convoy of merchant ships moving towards a particular port. Now if a Socialist economy means an economy where the Government has gone into business management, the first job of the Government as general manager is to put the general idea of the purpose of industry into a form which is communicable and intelligible to all those engaged in industrial activity. The general manager must formulate a general policy.

We have seen that there were a number of factors which entered into the idea of the purpose of industry. These do not constitute a policy, still less a programme of action. Until relative values are placed on them they remain no more than an abstract conception. We cannot, for example, always and all the time maintain full employment, and never produce goods which nobody wants. By good management we can either minimise the time spent in unemployment or the volume of goods unnecessarily made. But we cannot avoid making a choice; this choice is a matter of policy, it is a question of placing relative values on two of the factors which make up the general idea of industry as a service to the community. Full employment has too long been a part of the Socialist conception of industry to need any comment. The Tory conversion to it is more recent. It is only five years since a Tory leader said "Insecurity . . . is a great, perhaps the greatest, stimulus to effort."¹ At a Tory conference of managers held in April, 1948, one speaker referred regretfully to managers who said "If only we had unemployment, if only we could pick and choose people as we did in the good old days." It is not unfair, then, to say that a Tory industrial policy regards the efficiency of a single undertaking as measured by its profit-making capacity of more

¹ The Marquis of Queensberry on Postwar Conservative Policy.
importance than the maintenance of full employment throughout the whole of industry.

We have dealt in this example specifically with only two factors, full employment and efficiency. What we have said with regard to them applies to all the other factors in the situation, namely, that we cannot pursue any one of them exclusively without upsetting the balance between all of them. The task of placing relative values on full employment, efficiency and the other factors cannot rest with each separate undertaking. If a correct balance is to be maintained between them and there is to be unity of purpose throughout the whole of industry, only the general manager of the national economy can bear the responsibility for this task.

THE ORGANISATION OF INDUSTRY

In practice, what emerges from the relating of these factors is a quantitative assessment of imports and exports, of production and consumption, of capital investment and consumer spending. But although the Government has set up export targets for industries, it cannot be said, except perhaps in the case of the nationalised industries, that as far as the private sector of industry is concerned each manager and each worker can see the link between the programme being pursued by his company, or the link between the particular part of that programme for which he is responsible, and the general industrial policy. It is true that there are a number of industrial consultative and advisory bodies which purport to provide this link. There is, for instance, the Economic Planning Board. There is also the National Production Advisory Council for Industry, with its eleven regional boards and many district committees. The first body consists of senior industrialists and trade unionists, Treasury officials and members of the Planning Staff, and discusses Government ideas in the very earliest stages. The second comes into direct contact with Ministers, and is a means for exchanging ideas on plans already formulated.

So far so good. These bodies no doubt achieve a certain amount of useful co-ordination. They are evidence of the "relationship" conception of industry to which we referred earlier. But an essential feature of co-ordination is lost when the bodies break up into their separate undertakings and separate trade unions, each bound in a different environment to pursue its own end. The advisory bodies—indeed, this
is the nature of advisory bodies as opposed to that of executive bodies—cease to be part of the process of continuous co-ordination through which orders can be conveyed and control can be exercised. The separate undertakings become subject to controls exercised direct by Ministers. It was all right to have no hierarchical organisation between Minister and individual undertaking when industrial management only began with the individual undertaking; but as, in a Socialist economy, industrial management begins with the Government, a system of delegated authority and control which is appropriate to such a conception must be built up. The present system whereby a multitude of controls is operated by a number of Ministers over all manner of businesses is not the appropriate type of organisation. It is as if every worker in a Morris factory had to refer to Lord Nuffield to sign every material requisition. Such attempts at over-centralisation inevitably create difficulties, and the more the difficulties, the greater the number of regulations put out to overcome them. It is the exercise of detailed controls by the same persons who are responsible for formulating policy which is the root cause of what has come to be called bureaucracy.

For the essential feature of bureaucracy is not, as is so often said, the lack of personal contact between those who operate at the centre and those who operate at the periphery. Nor is it the woolliness of outlook which is supposed to characterise the central executives. This is not to deny that there is this lack of personal contact, for it is clearly impossible for, say, the President of the Board of Trade to know the personal work problems of every industrial manager, let alone every industrial worker, whose activities he must co-ordinate and control. Addressing public meetings of representatives of employees or workers or occasionally engaging in private conversations with a few individual managers or workers can do no more—not that this is not important and valuable—than to give him the opportunity of entering into the mental climate of such people. Nor, in a sense, is woolliness of outlook a bad thing for a Minister or a top-level civil servant. A Minister must see the industrial picture, whole. Seeing the picture whole means blurring the details: in short, being woolly. What must be aimed at is to make woolliness of outlook and remoteness of control things which do not matter in execution. This cannot be done if the person whose job it is to see the picture whole attempts to direct the details. It is in this that the dangers of bureaucracy lie.

We are, most of us, familiar with these dangers: the
danger of problems involving human happiness and satisfaction becoming papers in an in-tray; the danger of paperwork becoming not the essential lines of communication but merely formalism and red tape; the danger of frustration of keen managers remote from the centre; the danger of decisions arriving in respect of situations which have changed and for which they are no longer appropriate; the danger of thinking by workers and managers in collective terms—the “they” and “them” attitude—which leads to irrational prejudice and is perhaps the most serious brake on efficiency. All these dangers arise in large-scale organisations, when the detailed interpretation of policy is centralised. It is then that remoteness from the scene of application becomes bureaucracy, and the following words of Aung San, the assassinated Burmese leader, have relevance: “The principles of an Act may be all right when the Act is passed, but principles are likely to be undermined by the rules framed under the Act, and the rules again undermined by directives, and the directives by the whims and fancies of the persons executing them.”

Admittedly large-scale organisation has its problems, but no management problem was ever solved without creating others in the act of solution. The question is whether the disadvantages of the problems created are more or less than the disadvantages of the problems solved. To solve the problem of making industry the servant of the community is worth a number of disadvantages arising out of its large-scale organisation. Nevertheless, we can minimise these disadvantages if we do not attempt both to formulate policy and execute detail at the centre; if, in other words, the Government as general manager of the national economy delegates authority to industry.

It is interesting to note that the Industrial Charter outlines some such system of delegating authority. “It is the Government’s business,” says the Industrial Charter, “to make broad allocations of scarce resources amongst the main classes of user.” The industries themselves are to be “given the responsibility for sub-allocating the block quotas.” Thus a firm would have to “obtain a single licence for a particular operation instead of several issued by different and uncoordinated ministries.” The Industrial Charter goes on to propose that a Conservative Government will consult with “advisory bodies,” this consultation helping in the formulation of what is required by industry and in the communication of what is available. Finally, it says that the Government

1 The Industrial Charter. A statement of Conservative Industrial policy.
would have the duty of seeing that the schemes of control worked out by the industries would achieve what they were meant to do and would be fair as between producer and consumer. Whether we believe or not that the Tories are here attempting to steal "the livery of the Court of Heaven to serve the Devil in" is of little consequence. The important point is that the sort of organisation they envisage to cover the wide field of industrial management between the Government and the individual undertaking is on the right lines, and is not yet part of the Socialist organisation of industry.

Development Councils are clearly the bodies designated for providing the missing link in the "chain of command." The functions which may be assigned to a Development Council and which are listed in the First Schedule to the Industrial Organisation and Development Act, 1947, include many which would naturally fall to be exercised at this level. As frequent mention will be made of these functions, they are listed in an appendix for convenience of reference.

These functions, it will be noted, are mainly concerned with research, with standardisation of products, with co-ordination of marketing and production, with costing and control statistics. They do not, however, include the most important function of all, if Development Councils are to become an integral part of the management process in industry. For they do not include the function of receiving quantitative programmes from the appropriate Minister, and assigning the responsibility for carrying out parts of the programme to individual or groups of individual undertakings. They do not include the function of receiving block allocations, as determined by the central planning staff in respect of each industry, for foreign exchange, or for buildings, or for new capital issues, or, most important of all, for raw materials. Nor do they include the function of controlling the issue of these allocations to individual undertakings.

In its further consideration of industrial management in a Socialist economy, this pamphlet assumes that within the next ten years some legislation on these lines will be introduced to make Development Councils (perhaps under another name) an authoritative part of the organisation of industry. Such legislation, it is true, would raise more sharply the political problem of representation on the Councils, and the social problem of avoiding the dangers of the managerial or the corporate states. The Act, of course, does provide for these matters. The Development Councils are to be responsible in many ways to the Minister, to whom they must
make an annual report which is to be laid before Parliament. In addition to members representing employers and workers, there are to be independent members of the Council. Thus, for instance, the first order issued under the Act—the Furniture Industry Development Council Order which came into force on the 1st of January, 1949—appoints four independent members in addition to the seven employers’ and seven workers’ representatives. Whether or not these provisions for accountability to Parliament and the consumer need any strengthening when the Councils are made part of the industrial planning process, in the manner which has been indicated, is beyond the scope of this discussion. It is with the problems of industrial management that this pamphlet is concerned, and for this reason something must be said of the relationship between individual undertakings and the Development Councils, and of the co-ordination and control of individual undertakings by the Development Councils.

CO-ORDINATION AND CONTROL OF INDUSTRY

The most likely means of co-ordination and control operated by the Development Councils will centre round the issue of the raw material of the industry to each business. For this reason the Development Councils soonest to be formed should be those concerned with such basic raw materials as, for instance, rubber, wool, timber, paper, non-ferrous metals, all of which need, for the most part, to be imported—and, at least for as long as we cannot entrust our external economy to the price mechanism, bulk-purchased and hence taken into the measurement of economic prospects made by the central planning authority. The primary industries should therefore be the first to be incorporated into the general scheme for industrial management and, from the experience gained in these industries, the principle of devolving authority for carrying out the central plan to industry should be gradually extended to secondary industries. The cloth-making industry should be integrated into the organisation before the clothes-making industry. Of course, there would be complications. The first complication arises out of the need to define where an industry begins and where it ends. The same problem has presented itself in different ways to trade federations and trade unions. They have not found it insuperable. A large field for definition can be found, and the marginal cases can
be left as subject matter for perfectionists' letters to *The Times*. A more important problem arises in those industries where single firms do only part of the whole process. For instance, in the cloth-making industry which has been mentioned, the allocation of materials would have to be made to a balanced group of scourers and carbonisers, blenders, spinners, weavers, and finishers. This would achieve an automatic rationalisation in production, which, short of nationalisation, would take years to achieve by the ordinary legislative process.

In this way, while the control by a Minister of an industry would be exercised as a whole through the quantitative control of its basic raw materials, the detailed application of the control would be the responsibility of the Development Council. The responsibility would consist not only in issuing the raw materials to constituent members of the industry, in a fair and equitable way, but in seeing that new entrants to the industry were not discouraged and efficient businesses had the possibility of expanding. The control methods would not only have to see that the materials were used for the most necessary purposes, but that there was no undue wastage in achieving these purposes.

Quite apart from the fact that it is applied centrally, the present method of allocating material is inefficient, in that it covers too short a period, and inequitable in that it is based on pre-war standards. Although more recent periods are now being adopted as the standard periods, the principle of a flexible standard is still not being established. The basis of allocation should take into account both the business done and the efficiency with which it is done. A simple and flexible method for achieving this would be relating the allocations to the material cost of turnover and the profit on capital employed. The first factor takes into account the business done and the second factor takes into account the manner in which all resources, fixed plant, buildings, stocks, work-in-progress, cash, etc., have been utilised. The index for any firm might be the material cost of turnover added to the product of the profit on capital employed and the material cost of turnover. The allocation to any particular firm would then be its own index divided by the sum of the indices of all firms in the industry, multiplied by the amount of material allocated to the industry. Some reserve of materials would, however, be retained for new entrants to the industry, to whom materials would be allocated according to the capital they proposed to employ and the average material cost of turnover and profit achieved in the industry for such capital.
There might be a minimum allocation for the small man. The allocations would be made for a whole year and to achieve flexibility firms should be allowed to buy or sell parts of other firms' allocations. There is no black-market danger in this for such sales and purchases would react on the index for the next allocation.

To Socialists it may appear that a proposed system of control which takes into account the profit on capital employed would be once again enthroning profit-making, and not the service of the community, as the purpose of industry. There are four reasons why this is not so. In the first place, as long as we have a price system—and it is impossible to imagine any less cumbersome method of expressing consumer choice—there are bound to be differences in any given period between the cost of production and selling price, and as long as there is a private sector in industry then differences are bound to be represented by the profits (or losses) of private undertakings.

In the second place the system of control which we are discussing cannot be considered apart from the other functions which are to be carried out by Development Councils. Three important functions of the Development Council are those numbered (5) (6) and (7) in the first schedule to the Act. The first is concerned with “promoting the production and marketing of standard products,” the second is concerned with “the better definition of trade descriptions and the consistency in the use thereof,” whilst the third empowers the Development Council to undertake the “certification of products, the registration of trade marks and the functions of proprietors of such marks.” All these activities properly carried out would be instrumental in educating the consumer, thus removing one of the greatest weaknesses in the competitive system—undiscriminating consumer choice. Furthermore, these activities protect the more conscientious manufacturer from unscrupulous competition by establishing minimum standards for the product.

The third reason why the inclusion of the profit factor in the control system does not enshrine profit-making as a purpose of industry is the greater emphasis which is given in the index to material cost of turnover than to profit on capital employed. The effect aimed at is that a manufacturer may more readily maximise his profits by reducing his selling prices than by either maintaining them at the same level or increasing them. As each manufacturer will be competing for material, the volume of which, in a planned economy, is fixed for a period by the central Government, he will tend
to try and improve the factor which has the greatest influence on his material allocation. This factor is, of course, the material cost of turnover. He will hope by decreasing selling prices to sell more units and increase his profits by a greater spread of overheads. No one except the inefficient manufacturer will object to a state of affairs whereby profits may be increased by reducing selling prices. In this way, profits become a more accurate, although by no means the only, measure of efficiency. The last reason is that the quantitative controls are not simply regarded as a check on the price mechanism in the case of those commodities where there is a temporary maladjustment between global supply and demand; they are intended to direct raw materials into the most socially desirable of its many alternative uses. Thus the reverse is rather the case—the price mechanism acts as a check on the quantitative planning.

This suggested method of control—necessarily in a pamphlet of this description—is put forward in a simplified, perhaps an over-simplified, form. Conditions vary from industry to industry, and, within each industry, from firm to firm. A lot depends on the elasticity of demand for the product of the industry, for, as has been noted, an important feature of the proposal is that the balance of advantage should always be to the undertaking that seeks to increase its allocation by reducing prices. Capital employed is subject to a number of definitions, and would vary to an important degree with the past depreciation policy of each firm. The incidence of fixed expenses in unit costs varies from firm to firm; all these factors, and many others, make the suggested index far from perfect. Nevertheless, it can be claimed for this system of allocation what cannot be claimed for the existing system, that it has the following advantages:

(i) immediate previous use of materials and the efficiency with which it is used are taken into account;

(ii) the tendency to large-scale organisations aiming at security rather than efficiency would be arrested; and

(iii) the size of an undertaking would tend to keep within the managerial capacity of its managers.

The quantitative allocation of material to industry would have been built up in the first place by the summary, industry by industry, of the budgeted requirements of each business.
The publication of such summaries would show each business how it stood in relation to the industry of which it formed a part, a measure which in itself would make for co-ordination at an early stage. No doubt adjustments to these summarised requirements of each industry would need to be made by the central planning staff in the light of all the factors in the national economic condition before they became the basis of the quantitative allocation to industry. The reasons behind these adjustments explained to each industry by Ministers would take the process of co-ordination a stage further. Co-ordinating activities in this way would lessen the need for detailed control—the object of control is, after all, co-ordination. Each business would now have some idea of the adjustments it would need to make to its own budgets. The very fact that budgets are made would lead to many savings such as savings due to not securing and recording orders which cannot be fulfilled, or savings due to not having to deal with the complaints of customers where orders have not been fulfilled. These savings result from not overfilling the order book. More important than these are the savings which would flow from not underfilling the order book, such as the savings due to not tying up capital in materials which may become unsuitable for sale or deteriorate in store.

While the standardisation and certification of products, and the promotion of trade descriptions would facilitate the regulation of prices, the writer believes that, in general, price control is inimical to the effectiveness of the quantitative control which has been discussed. The quantitative programmes, it will be remembered, were the expression of certain relative values which were placed on the factors which enter into the conception of industry as the servant of the community. The price mechanism should be allowed to check as to whether these factors have been correctly valued. The price mechanism must provide the democratic answer to the question: who shall control the planners?

The professionalisation of managers and the diversification of ownership—matters which are dealt with later—will overcome some of those weaknesses of the price system as a social mechanism which exist when it is operated in unplanned private enterprise.

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1 The writer knows more than one clothing manufacturer who regularly take 20 per cent more orders than they can possibly deliver. What this means in terms of wasted journeys on the part of travellers, in terms of wasted effort on the part of clerks, typists, telephonists and in terms of general frustration it is difficult to estimate. On a national scale it must be considerable.
THE GENERAL MANAGER OF THE INDIVIDUAL BUSINESS

So far we have considered the Socialist conception of the purpose of industry, and the means by which this conception is brought into action. We have assumed certain changes in the organisation of the private sector of industry. It is now proposed to consider the implications of these for the general managers of individual undertakings.

While, in theory, management is something distinct from ownership, it is only in the case of large undertakings that this distinction has become a real one. But out of approximately 233,000 manufacturing establishments in this country, only one per cent. employ more than 500 persons. In these small and smaller establishments we are most likely to find the owner-manager or the part-owner representing other part-owners who are perhaps members of his own family. Where the owner is managing the business it is only natural that the policy of the business should not be conducted by reference to the social purposes of industry. With these purposes he may ethically be in full agreement. But they are remote influences when compared with the strategic exigencies of his desire for the maximum amount of profit compatible with security. It is not surprising, therefore, that where you have a number of autonomous undertakings engaged in a competitive struggle, their strategies are analogous to the strategies of war. The strategic aims of war are to destroy the enemy, to get possession of his material and other sources of strength, to build up strong-points, to keep forces in reserve, for as long as expedient to carry on the struggle by means short of war, and then to push the struggle “to the utmost bounds of violence.” Under unplanned private enterprise the strategic aims of the general manager are to make his competitors bankrupt, or to absorb them, to protect his business with trademarks and patents, to build up secret reserves, to give special credit terms, or to engage in a price war. Under the threat of foreign competition, security has, in the older industries, for a long time been a more powerful motive than profit maximisation. This has been one of the causes leading to the formation of trade federations and to arrangements for interlocking directorships and shareholdings. In the newer industries, however, where profit maximisation has remained a more powerful motive, the competitive system has led to the production of shoddy goods not only in times of boom when almost anything sells and
makes a profit, but also in times of slump when prices are brought down to a level which only allows for the production of the cheapest and nastiest goods.

Such strategies are incompatible with a system of co-operation amongst undertakings. In a planned economy the policy of the group which he is managing has a purpose common not only to the manager and the group which he is managing but also to that of other managers and the groups which they are managing. This purpose is expressed in clear and unmistakable terms in the quantitative programme which he receives from the Development Council.

The quantitative programme represents a measure of the contribution which the undertaking is to make to the problem of full employment, a rising standard of living, and so on. It would be naive to suppose, even without the evidence of the nationalised undertakings which make it an act of stupidity, that the mere quantitative expression of a general policy in a Socialist economy will immediately solve all the problems of human relations in industry.

The patterns of human behaviour change very slowly. In 1673 a preacher could say to his congregation: “If God shew you a way in which you may lawfully get more than in another way, if you refuse this and choose the less gainful way, you cross one of the ends of your calling and you refuse to be God’s steward.” Two hundred and seventy-five years later, Tories can only say that profit making is not quite so important as it used to be. The first Factory Act was passed in 1802. Trade unions lacked legal status till 1871. The Whitley Commission made its recommendations in 1917. Slow progress. The hatreds and suspicions engendered in the Industrial Revolution are dying slowly and although the pace is quickening—indeed, it must quicken—too much must not be expected too soon.

Nevertheless the quantitatively expressed common end does give a basis for changing this pattern of behaviour more quickly albeit over a number of years. It has the social content necessary for raising industrial morale and for removing workers’ suspicions and manager frustrations. It has the qualities necessary for organising joint consultation without a two-sides complex, for making orders into expressions of the plan and not of a manager’s whim, for making the refusing of these orders at least as much a social wrong as jumping the bus queue. It can provide the opportunity for true leadership and true service. When this has been said, the most important thing about the general manager in a Socialist
economy has been said. For, with an objective thus ennobled, with an objective wholly consistent with all his moral teaching, the general manager can at long last don the mantle of leadership which has been dangling in front of him ever since it was first realised that management was distinct from ownership.

The second implication of the Socialist conception and organisation of industry concerns the relationship between manager and manager. The professionalisation of this relationship has already made a tentative beginning. Under a planned economy professionalisation is likely to develop very rapidly. The professional man gives loyalty “to a body of principles, of ideals; that is to a special body of knowledge of proved facts and the standards arising therefrom.” The objects of a professional man, according to Mary Parker Follett, are to establish standards of behaviour, performance and competence, to maintain and improve the standards and to educate the public into an appreciation of these standards, to protect the public from those who have not altered their standards or from fellow members who disregard them. The resemblance between this statement of the objectives of a professional body and the functions which may be assigned to Development Councils are striking. There is the same emphasis on research into and the establishment of better standards, on educating the public by “promoting the better definition of trade descriptions and consistency in the use thereof,” on protecting the public by certifying products, and the like. Does it not follow that these codes of behaviour for businesses set by the Development Councils also set the codes of behaviour for the people who manage them? These codes of behaviour are quite indistinguishable from professional codes of behaviour.

Closely connected with the professionalisation of the manager is the weakening of the authority of the business owner. During the last few years there has been an increasing number of “private” companies which have become “public” companies, that is to say companies whose shareholders have been limited to fifty or less have become companies with hundreds, perhaps thousands, of shareholders. Private companies are called upon to reveal very much less of the details of these activities to the public than are public companies. Whatever may be said for the advantage or disadvantage of this privilege from the point of view of a single

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1 Dynamic Administration—The Collected Papers of Mary Parker Follett.
company, it is clearly disadvantageous on any total view of industry. The general efficiency of industry cannot be other than increased as the result of the freer publication of statistics and accounts from which comparisons can be made and new knowledge derived. The eighteenth item in the First Schedule refers specifically to the function of “promoting or undertaking the collection and formulation of statistics.” It is true that Section 5 of the Industrial Organisation and Development Act, 1947, makes stringent provisions for ensuring that information is only disclosed in summarised form, and that the sources of information are not disclosed. The habit of secrecy is ingrained in private enterprise in this country, and this section can only be justified on the grounds of not disturbing too violently the long-established patterns of behaviour in this respect. But non-disclosure is wrong in principle. It is inconsistent with the principle that industry—even private industry—exists for the service of the community. The public is just as entitled to have full information about a private concern employed in its service as it receives in respect of a public corporation. It is no less fitting that it should know the labour turnover of, say, a privately-owned jam factory than of a nationalised coal mine. The writer, therefore, assumes that in due course the restrictions on divulging the source of statistics will be removed, and that under Development Councils all privileges of private companies will be discontinued. This is likely to lead to a number of related effects. To begin with, there is likely to be an ever more rapid increase in the number of private companies offering their shares to the public. Past experience has shown us that diversification in shareholding results in a weakening in the authority derived from ownership. We can expect, therefore, a sharp increase amongst smaller undertakings in the tendency towards the separation in practice of management and ownership. This diversification of ownership will lead also to a watering down of the power of the profit motive which is more unified and hence stronger when shares are owned by one or a few persons. The corollary of this is an increase in the power of the social purpose as a driving force in industry.

One of the most difficult problems of a planned economy

1 Oddly enough, these provisions are not repeated in the Furniture Industry Development Councils Order.

2 An opportunity occurs here for Co-operative Societies to buy shares and thus offset the increased power of managers, whilst at the same time maintaining their function of representing the consumer.
is that of the relationship between the specialist and the manager. The problem is not, of course, peculiar to a planned economy. Every business to-day has some form of functional organisation and an inevitable concomitant of this form of organisation is the problem of specialist-executive relations. But in the form in which we wish to consider this problem now, that is, in the form of the relationship between the general manager and the central specialist, the problem hardly exists at all. The specialist functions exist. Every business manager makes use of specialists of all kinds—lawyers, accountants, architects, and, sometimes, consulting engineers and even industrial psychologists. But he asks their advice only when he thinks he needs it and can afford to pay for it. The relationship can only be brought into being at the will of the general manager, and when it is created it is fundamentally a commercial relationship and not an organisational one. This commercial relationship must inevitably retard the spread of specialist knowledge, for under this relationship the extent to which correct rather than acceptable advice is given depends on the degree of courage and financial independence possessed by the specialist adviser. Under unplanned private enterprise the problem is thus avoided, rather than solved, but at immeasurable cost in economic progress.

In a planned economy we have seen that the general manager of a particular undertaking now becomes part of an organisation at whose apex stands the Government, between whom and the manager there are a complex of specialists of all sorts. In the nationalised industries this problem is in its least tractable form. This is because nationalisation meant a speedy, and hence a radical, rearrangement of the duties and responsibilities of all those engaged in the industry nationalised. It meant the installation, almost overnight, of specialists at area and regional level whose advice could be given even when it was not sought, and might have to be taken even when it was disputed. Speedy and radical changes can be made in lists of duties, but not in human attitudes towards them and

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1It is interesting to note, by the way, that as late as 1940 the Russians had not even solved the problem of the accountant/manager relationship, which one would have expected to be one of the easiest of the specialist/executive relationship problems. The Chief Accountant of the Kirov Works writes the following in Pravda: “In practice there are often conflicts between the principle of one man control on the one hand and two sometimes incompatible functions of the Chief Accountant on the other. The latter must be assistant to the manager in the field of finance, but at the same time supervise the financial transactions of the manager.” (Taken from Management in Russian Industry and Agriculture: Bienstock, Schwarz and Yugow.)
their incumbents. Hence the acuteness of the problem in nationalised industries.

The organisation of private industry through Development Councils does not avoid the problem of central specialist/general manager relationships. It is clear from the nature of the functions which may be assigned to Development Councils that many specialist functions will indeed be created and will operate centrally. But while the problem is not avoided, nor is it posed in the acute form in which it has been posed in the nationalised industries. This form of organisation of the private sector calls for no sudden revolution in human relationships. The individual undertakings continue to be privately owned. But nevertheless the private vested interests of owners and managers, while they become immediately subjected to the common purpose of industry, appear to do so more slowly. The central specialist does not appear suddenly on the general manager like a bolt from the blue of the vesting-day sky. Each can accept their relationship emotionally before they recognise it logically. And it is only in this way that the conflict between the authority of the central specialist and the authority of the general manager can be resolved.

How will the general manager react to the sort of organisation of industry which we have been describing? Will he work harder, or less hard? As far as financial incentives are concerned there is no reason why they should be less for the general manager (qua general manager and not qua owner) than they are in an unplanned competitive economy. On the other hand his opportunity for promotion will probably be greater. The movement of capable managers from smaller to larger enterprises will be facilitated by the publication of business accounts and statistics, for these, rather than some chairman's highly personal reactions, will provide the record and the measure of his ability. Promotion does not only bring higher financial reward, it also brings increased status and increased prestige both of which are strong inducements, particularly to the managerial class. Increased status and prestige will also arise out of the professionalisation of management to which we have already referred. To belong to a profession is to be recognised by the community as standing for certain worthwhile values. Giving service to the community, believing that what he does is in the national interest is in itself a source of satisfaction to the manager; this satisfaction will be enhanced when it converges on the industry to which the general manager belongs rather than on the more remote central government.
All these satisfactions and incentives are shared by other managers, but there is one satisfaction which is new to the general manager, and is in the writer's view an extremely powerful incentive. In their book 'Managers, Men, and Morale,' Wilfred Brown and Winifred Raphael have described the loneliness and isolation of the chief executive. This loneliness is not entirely dissipated by belonging to a profession. Members of a profession do not mutually unload those business problems which are of a personal nature, they do not seek at professional meetings relief from the pains and thwarting of human relationships. Nor do they share the joys of such relationships. It is these things which are at the root of the loneliness of the general manager and which will be resolved when he finds himself not only at the apex of one organisation but part of another.

FUNCTIONAL MANAGEMENT OF THE INDIVIDUAL BUSINESS

We have attempted in this pamphlet to show how the developing Socialist conception of industry is likely to affect the way in which the manager does his job. Up to now our reflections on the management process have been mainly concerned with the relationship between Government, Development Council and general manager. Our point of view has been predominantly that of the general manager looking outwards at the operations of the management process throughout the whole of industry. We now propose to look inwards, as it were, from this point of view, at the principal functions or, more correctly, at the more common groupings of functions, which make up the management process in an industrial undertaking of medium size. Or, to put it another way, we now attempt to show how this developing Socialist conception is likely to affect the way in which, in any manufacturing organisation, the principal functions are carried out.

First, with regard to the sales manager. The sales manager is concerned with persuading customers to buy goods, and he exercises this persuasion in two ways, first directly through contact with the consumer by means of sales representatives, and second, indirectly through the influence of the printed and in some countries the broadcast word. The writer believes that direct contact through representatives should continue under Socialist planning. In the first place
direct contact is essential to co-ordination of the general plan. The representative/consumer contact is both an essential last link in the long process of co-ordination from Planning Board to the man-in-the-street, and an essential first link in the process of consultation leading from the man-in-the-street to the Planning Board. Without this contact the whole experiment of organising a national scheme of human co-operation becomes a mechanical exercise in organisation, perfect in bone structure but devoid of flesh and blood. This will give the work of the sales manager new meaning. No longer will he need to emulate Goebbels and play on people's psychological weaknesses in order to get them to take goods which, at the worst, do not achieve their aim, or give a performance lower than the customer could reasonably expect of them, or at the best are no better than a hundred other articles of the same type. No longer will he need to resort to such tricks as selling identical goods under different branded names or including the same articles in three different price lists. Instead he will have the job of educating the consumer into the meaning of the standards, trade descriptions and trademarks promoted by the Development Councils. He will help in the task of reducing the amount of unnecessary variety, whilst perhaps increasing the amount of variety where taste and not performance is the significant factor. He will play his part in raising the standard of life. By contrast, influencing the consumer by the printed word will be the prerogative of the Development Council. Its main aim, too, will be education of the consumer into the meaning of trade descriptions, trademarks and the economics of standardisation. Advertising to create or stimulate a general demand for the industry's products will also be the responsibility of the Development Council and not of the individual undertaking (see Function 5).

Two functions which we shall consider together are those of the works manager and the personnel manager. It is only comparatively recently that the function of personnel management has been separated out from that of the works manager as a specialist function. To-day a managing director can make a prima facie claim to being imbued with the spirit of scientific management by simply engaging a personnel manager and and including him on the top line of managers owing responsibility to him. And yet on any dynamic view of the management process this new specialisation can only be regarded as a retrograde step, for on this view the management process is the art of organising personnel relations. It is the very heart and marrow of the works
manager's job, more, far more, than any other manager's. Why then has the function of personnel manager been isolated from it?

The answer lies in the fact that it is in the factory group that the competitive strategies which we have described elsewhere come most in conflict with the needs of its members. It is the members of this group who remember they were once liable to dismissal at an hour's notice, and fear they may become so again, and who feel the need for an assured security. It is they who, subject to an authoritarian type of discipline within the factory, most feel the loss of the dignity they possess outside it as husbands or fathers. Not even by disowning responsibility for them could the works manager offset the effects on the workers of the competitive strategies. And so at last he sold his birth-right to the personnel manager. The personnel manager is not succeeding where the works manager has failed. Nor can he. Only the removal of the competitive strategies, only an industry planned to be the servant of the community, can give the worker the assurances he needs. The setting of a quantitative programme for each firm directly linked with the various factors which enter into the Socialist conception of industry will remove the fundamental cause of bad manager/worker relations. There will then be no need for personnel managers. Not again, but at last, will the works manager come into his own.

The quantitative allocation of materials provides the accountant even of the smaller concern with an opportunity for developing the technique of budgetary control. Budgetary control is a technique for accounting for future happenings, for predetermining the scale of sales and production activity, and comparing actual performance with the standards based on the predetermined activities. In practice it is usually the sales forecast which is the main determinant of the scale of activity. Particularly in smaller firms, who cannot afford specialist statisticians to study its trends and to relate them to general economic trends, the difficulties of making the sales forecast has given the whole technique a certain air of unreality. Wide differences between the actual sales performance and the sales forecast have resulted, in the case of some of the standards, in large discrepancies between actual and predetermined performance. In spite of the attempt by what are called flexible budgets to overcome this difficulty, the usual effect is that, except when the differences between standard and performance are small—when, of course, they do not matter so much—the standards themselves become suspect. When this happens the whole control mechanism
breaks down. These difficulties will be removed by the quantitative allocation of materials, which will become the basis for the notional activity of the firm.

There are a number of advantages which can be derived from a system of budgetary control. But perhaps the most important of these lies in the opportunity it provides for providing joint consultative bodies with a detailed factual agenda for discussion. The more discussion is degeneralised the more difficult it is for the strong personality to dominate proceedings. Facts are not dramatic or undramatic, they are either significant or insignificant. It is less easy to become emotional about them, and more easy to reach agreement about them, when they are presented one by one. Agreement on a total situation is most easily reached when it is built up by agreement on the elements in the situation. Budget discussion provides the opportunity for this. Another advantage of the budgetary control technique, reference to which is not outside the scope of this pamphlet, is that it can segregate the difference in profit (between that estimated and that achieved) resulting from having sold a different mixture of products from that originally envisaged. A summary of these differences for each industry would indicate to the consumer the price that he paid or the benefits he earned as the result of the choices he exercised. A consumer enlightened in this way may soon learn to judge what is and what is not unnecessary variety.

Perhaps no part of accounting technique has been more neglected in small businesses than that concerned with the assessment of financial strength. The imminent need of a bank overdraft has been almost the first indication to many accountants of approaching financial difficulties. And yet these difficulties are of slow growth, and techniques exist for discerning them. Earlier in this pamphlet a suggestion was made as to the means by which Development Councils might allocate materials to individual concerns. If carried out, this would also focus the attention of the accountant on some of the techniques available for measuring changes in financial strength.

The function of purchasing manager is one which used to inspire much discussion. This function consists in watching market fluctuations, searching out new suppliers, placing orders and ensuring their correct delivery to time, and in checking invoices against delivery. The size of undertaking where these functions are separated out from those of the general manager, production controller, and accountant, is probably larger on the average than most of the concerns
which we are discussing. But even in those concerns where it has been specialised, there will probably be a tendency under a planned economy to regroup them. With a quantitative allocation of the main raw materials, the questions of watching markets and searching out new suppliers hardly arise. Placing orders and ensuring their correct delivery to time is an activity best brought into focus under the auspices of the production controller, and checking invoices can easily revert to being a responsibility of the accountant. It is true all the same that basic materials are not the only items of supply. Furthermore, a certain knowledge of contract law is also one of the qualifications of a purchasing manager. Perhaps the best conclusion that can be drawn is that under a planned economy the point of growth in an undertaking when the purchasing function becomes specialised is likely to be higher than it was under a competitive economy.

The last function with which we propose to deal is that of development. This word covers a multitude of activities: scientific research, product research, method research and so on. For this reason it has usually been a subject for committee and team work rather than for individual work. Operational research during and since the war has confirmed this approach. Consequently, it is to be expected that by far the greatest part of the research work will be done at the Development Council level. The first, third, ninth, twelfth and thirteenth functions of a Development Council specifically use the word research, and most of the other activities are in fact functions of development and research. Development Councils will have a unique opportunity for developing amongst managers the scientific approach to management. The scientific approach to management involves the correlation of the experience of different managers, observing in what respects these experiences conform or differ, and inducing new or confirming old principles of management from these observations. To be successful, experiments must be organised. Conditions must be prepared so that the factors which are being observed can be introduced, or withdrawn, or varied.

It is true that much work is being done to-day on these lines by the Committee on Industrial Productivity, the Medical Research Council, and a few other bodies. But this work is being done in firms who offer themselves for this purpose. Such firms are likely to be more than normally forward-minded and efficient. They are unlikely to be representative of the 233,000 concerns which make up private industry and this is bound to make the results less valuable. More valuable
results can be obtained through Development Councils. This is not to say that research at company level should be discouraged. The man with a single bee in his bonnet often produces a considerable amount of honey. In order to offset the general movement in the direction of standardisation and so that industrial development should not become ossified, research must be encouraged wherever possible. But even the results of individual research must be shared by the community. The Development Councils should have the powers to deal with new inventions on the lines of the Royal Commission on Awards to Inventors. On the whole, therefore, development work in particular firms is more likely to take the form of applying more universally ideas which have already been accepted; in other words, of testing out theory in large-scale practice.

CONCLUSION

It is appropriate to conclude this pamphlet on the management process in a Socialist economy with the note of development and research still in our ears. For “at least let us recognise that in modern management, in the scientific approach to the problem of ordering our human system of co-operation, we have something much wider and more significant than a mere mechanical exercise in efficiency. We have an entirely new attack on the political and social difficulties which trouble our time, a line of attack wholly consistent with the immense advances in the physical sciences which have created the mechanical economy which is the root of these difficulties. Management is not a mere matter of methods and systems. It is a search for social insight.” In a Socialist economy the Government, as the general manager, is the leader in this search.

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1 The First Report of the Committee on Industrial Productivity, which has been issued since these words were written, has confirmed this view.

Appendix

First Schedule to the Industrial Organisation and Development Act, 1947.

Functions which may be assigned to Development Councils:—

(1) Promoting or undertaking scientific research.

(2) Promoting or undertaking inquiry as to materials and equipment and as to methods of production, management and labour utilisation, including the discovery and development of new materials, equipment and methods and of improvements in those already in use, the assessment of the advantages of different alternatives, and the conduct of experimental establishments and of tests on a commercial scale.

(3) Promoting or undertaking research into matters affecting industrial psychology.

(4) Promoting or undertaking measures for the improvement of design, including promoting or undertaking the establishment and operation of design centres.

(5) Promoting the production and marketing of standard products.

(6) Promoting the better definition of trade descriptions and consistency in the use thereof.

(7) Undertaking the certification of products, the registration of certification trade marks, and the functions of proprietors of such marks.

(8) Promoting the training of persons engaged or proposing engagement in the industry, and their education in technical or artistic subjects relevant thereto.

(9) Promoting the adoption of measures for securing safer and better working conditions, and the provision and improvement of amenities for persons employed, and promoting or undertaking inquiry as to such measures.

(10) Promoting or undertaking research into the incidence, prevention and cure of industrial diseases.

(11) Promoting or undertaking arrangements for encouraging the entry of persons into the industry.
(12) Promoting or undertaking research for improving arrangements for marketing and distributing products.

(13) Promoting or undertaking research into matters relating to the consumption or use of goods and services supplied by the industry.

(14) Promoting arrangements for co-operative organisations for supplying materials and equipment, for co-ordinating production, and for marketing and distributing products.

(15) Promoting the development of export trade, including promoting or undertaking arrangements for publicity overseas.

(16) Promoting or undertaking arrangements for better acquainting the public in the United Kingdom with the goods and services supplied by the industry and methods of using them.

(17) Promoting the improvement of accounting and costing practice and uniformity therein, including in particular the formulation of standard costing.

(18) Promoting or undertaking the collection and formulation of statistics.

(19) Advising on any matters relating to the industry (other than remuneration or conditions of employment) as to which the Board or Minister concerned may request the Council to advise, and undertaking inquiry for the purpose of enabling the Council so to advise.

(20) Undertaking arrangements for making available information obtained, and for advising, on matters with which the Council are concerned in the exercise of any of their functions.