



Comments to mr. Blum's paper

1970, in 'Yugoslav workers' selfmanagement'

A. Introduction

This paper contains some general observations with regard to the excellent and interesting description of Mr. Blum on the subject of the director and workers' management with 'Energoinvest', as well as some aspects of the present developments in the philosophy and practice of participative management of a chemical company in The Netherlands, KNZ, part of AKZO. However, it also tries to detect some general trend in the (mostly Western) world and the relation of these trends to both the workers' management in 'Energoinvest' and the participative management in the above-mentioned company. Instead of only concentrating on differences in philosophy and practice between the two systems, it is also tried to find common denominators and the factors that appear to work towards an evolution into the same direction, although coming from a different starting point, both historical and ideological.

B. General remarks

1. Evolution and Business Enterprise

Before going later in this paper into the examination of the present situation of the industrial enterprise in Yugoslavia and The Netherlands, I would like to start with some general remarks on the role of the enterprise in the process of evolution that this earth and this world have gone through ever since the process started some 3 billion years ago.

In this long process we see the gradual growth from atoms to molecules, to cells, to organisms and eventually to man, who is now trying to successfully establish new forms and combinations in the next phase of evolution. The three striking aspects of all the phases of evolution are ever increasing complexity, interdependence of the constituting individual elements and completely new and unpredictable results out of the efforts for new combinations. In the present phase of evolution in this world it is a question, as Teilhard de Chardin has put it, whether we consider the social phenomenon as a consequence solely of the fact that we, mankind, become so numerous and that we just need economic and legal measures to 'organize' the human groupings; or, that we consider the new combinations as structures of nature, with their own and new complexities, and the natural extension of the organic evolution into a social evolution. Of course, there are many forms and combinations in human groupings through which the evolution process can find its way. However, it seems that the industrial enterprise is a grouping that contains a lot of elements that make it especially apt for a fast growth, particularly in the developed countries. It is usually not hampered by national, political, religious or ideological restrictions, or by a small maximum size (such as the family is).

The balanced and conscious international development of the industrial enterprises is of so much importance, because of the sharp acceleration with which the acceleration of changes is at present taking place in the technological and material sense. Social evolution has to keep up with it. In fact the quantitative acceleration is such that we can mathematically expect an uncontrolled explosive change within 50 years if we do not keep things under control. The industrial enterprise being the most important economical motor in the development of the optimal standard of living, one of the essential parameters in the present world, it is of utmost importance on the one hand that its development is not restricted by unnatural measures, on the other hand that it realizes the uniqueness of the individual character of each human being and the responsibility it has towards society, not only with regard to the company's employees, not only towards a particular region or nation, but in the long run the responsibility of being one of the carriers of evolution that might influence the eventual fate of this world. I think that this evaluation of the role of the industrial

enterprise becomes more and more obvious and that more and more responsible managers are aware of it. This is quite different from the unqualified search for power and profit that is sometimes attributed to the management of companies as being their sole and only goal.

2. Business Enterprise and Society

In the previous section I touched upon the important position of the business enterprise in the present phase of evolution, that of co-operation of mankind. When trying to ascertain what attitude the management of an enterprise will have to adopt in the near future, especially as regards the relation towards society, I subscribe to the three criteria recently laid down by Dr. Kuin:

- (1) Self-investigation of the own internal and external policy (an important aspect of the former, the participative management, will be dealt with elaborately afterwards);
- (2) Better presentation of the positive aspects of the business enterprise: the possibility of personal development, the benefit of working in and with a first-rate equipment and of good social securities;
- (3) Integration into society, by keeping contact with the market, governmental authorities, organizations for promotion of interests and other bodies; good citizenship, lively interest for the local society where the business enterprise is established, should complement the predominantly businesslike nature of the ties between business enterprise and society.

This condition of greater interdependence of society and business enterprise is to be realized in the seventies that are ahead of us, the so-called development decade, a period characterized by a transition to completely different and social relations. Some expectations voiced are a high rate of interest, lasting inflation, accelerated restructuring of industrial production, and - of great importance to our subject - further internationalization of business life, attended with denationalization of business enterprises.

3. The Process of Participation in General

In various sectors of the Western society and notably in The Netherlands, such as church, universities, parliament and military organizations, there is an increasing desire for and a mounting pressure on 'democratizing' the organizations. This means more decentralizing of authority, more involvement of the operating ('working') part of the organization, participation in the decision shaping and decision making process, that was up to now more or less reserved for one man or a small group at the top. This process of participation appears to be closely related to the distribution of power, irrespective of whether employees in the companies are involved, or the demands by students as to management, control, organization,

educational system and objectives at the university. This is not surprising, as since Renaissance and Reformation a development of society has begun, which in a negative way might be characterized as a process of emancipation from the indisputable and absolute authority of the ecclesiastical hierarchy, of the monarchy, of the industrial capital owners and of the oligarchy of scientists, the professors. Some spectacular events in this process of emancipation were the French Revolution, the Communist Manifesto and, nowadays, the occupation by students of university buildings all over the world. Its positive aspect being taken as a basis, the development of society mentioned before can be considered a process of political, social and economic as well as cultural maturity of ever greater classes of the people, particularly in Western Europe. As a consequence of this maturity, there emerges the demand for a smaller or bigger say in those matters, that in former times were under control of either ecclesiastical hierarchy, monarchy, individual capital ownership or scientists. I believe that in many parts in the Western world the presence of a quickly increasing pressure in the direction of participative management is not only recognized, but the management of a great many companies is very much in favour of taking concrete measures and action to take this into account and even to promote the evolution to participative management at various levels. This is not only the result of a reaction to a movement from other levels within the organization, or from forces outside the organization. It is also to a great extent the result of the fact that management itself is from within inclined to grow with the changes that result from new attitudes, new challenges, new problems with the ever increasing size of some companies and last but not least new generations of managers coming up, that have experienced the advantages and disadvantages of the former generations and are evolving into new times. While then in Western Europe especially (more so than in the U.S.A.) changes are taking place through internal and external forces (pressure from labour unions and left wing politicians), it is very probable that this will be a gradual, hopefully balanced, development as long as the people involved in effecting the changes are realistic, open-minded, and have a high sense of responsibility for the protection and an intensive knowledge of the true strengths and weaknesses of the now achieved standard of living, acknowledging the need for change, but not destroying the economic strength of the present society.

4. Participative Management in The Netherlands

The general trend indicated before, in the Western countries, is typical also for the situation in The Netherlands. A clear tendency towards greater independence of the employee can be noticed within the business enterprise. This is substantiated by the fact that for several subjects connected with this tendency statutory regulations are under preparation, for example that the competency of the workers' council

is enlarged and the employees are allowed a voice in the appointment policy as to the Board of Directors of the enterprise.

Another external factor, i.e. the government's power as to freeze the wages or at least limit the increases, seems to be behind us.

It is interesting that the direction, which the Dutch trade unions have taken, is only to break open the so-called closed group of individuals, who sit on the Board of Directors of the industrial enterprises. They do not wish an executive function or power, but want more possibilities for inspection and control on measures that directly affect the employees, and influence on the nomination of directors. It seems that they do not want to share the responsibility for all the operating decisions, as is more the case in Yugoslavia. They also want a system where the employees share in the undistributed profit of the company they work for. This is also contrary to the system in Yugoslavia. On top of that, as will be discussed later again, they do not want the employees to share the losses of the company they work for. Altogether a rather one-sided approach and not one that will lead to the kind of involvement one would expect to achieve with the more individual type of participation.

In the latter part of this paper I will try to describe in general the organization of the company I work for and the way in which we want to try to promote participation by individuals from within, and establish relationships that will hopefully result in more and more individual satisfaction in the decision shaping and decision making process.

C. Some comments on 'Energoinvest' as described by mr. Blum

Although it is quite difficult to comment on the situation with 'Energoinvest' without having been there and realizing that it is always easy to criticize, there are a number of questions that come up when reading the report by Mr. Blum. I would like to emphasize, however, that I have the greatest respect for the way Yugoslavia has started these developments back in 1950 and that I also really admire the open and frank way in which the various authors of the papers for this symposium have exposed the strengths and weaknesses of the ever evolving system they describe.

1. Workers' Councils and the Director; Organizational Relationship

One of the first points that strikes me is that although the system is called the 'workers' management', I have come to the conclusion that this denomination is not representing the actual situation. A more appropriate name would be 'employees' management', as is clear from Mr. Blum's paper. Equally important is in this context the considerable shift in the qualitative composition of the workers' council.

Both factors indicate that the actual system is a system where the higher educated group has the

greatest influence in the management decision and that this has become of more importance as the system developed. The term 'workers' management' has, to the outside world, a different meaning than what is really meant here. In the Western world, where the people that have management responsibilities, are, especially in the larger companies, less and less the people that own the company and more and more just employees as anybody else in the company, one can also speak of 'employees' management'. There is, of course, still a great difference in organizational relationships, but not as much as one would believe to think if only confronted with the word 'workers' management'. As in fact the word 'employee' in its original sense of the word is also not appropriate anymore, it could be useful to create a more up-to-date word: participant. As far as the decisions and execution of decisions by the workers' council with 'Energoinvest' are concerned, it seems that the size (+ 100) and the frequency of meeting (once every 3 months) make it very likely that the really fundamental, important and mostly complicated policy decisions are already so well studied and prepared by competent and specialized employees and the management, that hardly any important new input can be expected during the meeting. If this would be so, however, one wonders how the decision making process can be started all over again without excessive delays. If the councils are more of the nature of instruments to check and control the actual outcome of management plans, one wonders what remains of the selfmanagement aspect and whether the system is not something quite different in reality, although not necessarily a wrong institution. Also, the great many possibilities the director has to cancel, ignore and change formal decisions in cases where the situation does not develop as it should, provide the same kind of 'management by exception' as is the case in the Western world. The fact that he has the sole right to propose his own management team, gives him more power than his Western colleague. Dr. Rudi Supek in his paper, at the end of the chapter on selfmanagement in production organizations, states that "the preservation of authoritarian structures within the framework of workers' selfmanagement in Yugoslavia is conditioned by the undeveloped state of the working class" (p. 234). I seriously doubt whether this is an attempt to try to explain the situation with a very specific factor, rather than to recognize that in any human organization there is a natural trend towards hierarchy and authority. The abrupt change from central state bureaucracy to workers' management has apparently proven to be too drastic and according to the various papers, has developed into more decentralized organizations (units) with a maximum of participation on the one hand, and the necessary control authority (and power) to ensure the best results for the enterprise as a whole on the other hand. Prof. Mitja Kamusic writes in his paper: "The Yugoslav Basic law on Enterprises tries to solve this dilemma by requesting at the same time: (a) the greatest decentralization of management possible, (b) as direct participation of the working

people in management as possible, (c) the most efficacious organization possible and (d) assurance of the best conditions for the operation and business activities of the enterprise" (p. 86). As this could be just as well have been taken out of the policy statement of a so-called capitalist enterprise, the similarity in the management approach is obvious and it is also not astonishing that Mr. Blum has expressed in one of his statements the plan to engage an American organization consultant company to improve the organizational efficiency. As far as the composition of the workers' council is concerned, it is not clear how the candidates are selected. Is there any influence here from certain formal groups (labour unions) or informal groups (co-optation)? And how are candidates for the directorship selected? With regard to the election of the director, the question of the right man on the right place at the right time seems to be more difficult to solve, because of the static effect that seems connected with the fact that only men that are known by the local people are likely to be chosen. A management development system, where managers can be transferred all over the country to fit best experience with available directors' posts, seems more difficult to apply. This would tend to make the enterprise less flexible and less open for change.

2. Financing and Profits

The fundamental aspect of financing only through loans and internally generated funds, raises a few questions. On what basis are the banks deciding on supplying loans or not? As there will probably be the need to select, what are the rules and who makes the final decision? As the function of deciding on investments and attracting the necessary funds to finance them is a vital part of the manager's job, how do the workers' councils have influence on it? If they do not have influence, it seems that this essential function of management is controlled by outside groups. Is there a 'workers' council' at the banks and if so, how do these councils relate their 'selfmanagement' decisions to the enterprises that depend on them for money? As it seems that the basis of the Yugoslav system is that the workers are building the enterprise through their own efforts and contributions, through their own decisions on how and where the generated cash is going to be spent, the question of what happens to workers who either through automation or depth-investment or decreasing turn-over will have to leave the enterprise, becomes apparent. It seems very unjustified that they would not receive any 'share' of what they have sacrificed during their employment to the good and wellbeing of the enterprise. If there is no such compensation one would expect that this creates resistance to the above-mentioned measures, which again introduces a static factor which will hamper the efficiency and competitiveness of the system. Mitja Kamusic touches these points more in detail in his paper when he discusses the subject of the provenance of the investments, and very rightly states that while getting more pay and getting an interest of 6-8 % on owned savings at the bank, the alternative of investing more of the profit into the enterprise does not give him ownership nor return.

As, apparently, the idea of ownership by individuals exists (small enterprises with a small amount of employees), how does the former owner get compensated for his property once the number of employees exceeds the allowed limit? If this is of such a nature that it is not interesting for him, he will be tempted to keep his business small, which in some cases could mean not optimal from an economic point of view, or, consequently, not competitive in the long run. Again, a static factor. The system of allocation of profits by the workers' council is a very interesting one, as it contains some other elements, which indicate that the mentality of the workers (participants!) is quite different from that in the Western countries. There apparently is quite a spread in earnings for the same kind of work in the various enterprises, depending on how well these are performing. It also means that during less good times the workers earn less. This would probably never cross the mind of the more spoiled Western worker. It makes the price or worth of labour quite undefined. In the Western world, where the workers can actually own shares of enterprises if they want to, whereas in Yugoslavia they actually have no title to the enterprise at all, the claims are also for more income and profit-sharing, with practically no differentiation. In enterprises where things are getting worse, the losses have to be paid by the shareholders.

3. International Aspects

One wonders, when looking into the further future, with the ever-increasing development of international trade and international investment and with the strong emergence of multinational companies, whether the Yugoslav system will be able to mix the concept of non-ownership with the ownership situations in the Western world. Characteristic of the Yugoslav system is the following condition, made by the International Investment Co. for Yugoslavia, recently established to assist and finance joint-venture projects of Yugoslav and foreign companies: in every case the Yugoslav partner will hold the majority of the stock. Also Mr. Blum states that joint ventures with foreign companies are possible and indeed do already exist, but how far and how long can this be maintained? As far as management philosophy is concerned with regard to organizational relationships and participative management I think that the systems are in the long run not incompatible. But the ownership principle can, in the Western world, even if it would be desirable, not be changed within a measurable time and from this point of view, also with the implications of statutory differences, an enduring international relationship will be prohibited. Apart from the potential static aspects of the Yugoslav organization of the production enterprises, I think the long range prohibitive aspects to take part in the internationalization of this form of human organization, could be the eventual bottle neck of the system, if kept in its present extreme form. After this short commentary on some aspects of 'Energoinvest', I will now briefly describe some of the main features of the company I work for.

D. Some aspects of the present situation with N.V. Koninklijke Nederlandsche Zoutindustrie, the salt chemical division of AKZO

1. General Information about AKZO

AKZO is a company with 91,700 employees, 33,100 in The Netherlands and 58,600 outside, mainly in Europe and the U.S.A. There are no special groups of shareholders, the shares being spread over the private public and investment companies, insurance companies and similar institutions. The shareholding capital is \$ 140,000,000, the present stock market value \$ 843,000,000, the net profit after tax in 1969 is about \$ 83,000,000, the cash flow being about 200 million dollars, the net profit per share \$ 3.30, and the present dividend rate \$ 1.10/share (the AKZO figures are those mentioned in the announcement of merger between AKU and KZO). The group net assets are \$ 947,000,000 and the total money acquired from third parties is \$ 955,000,000. The financing is done, as can be seen, partly from internally generated funds, partly through loans, the third possibility being the issue of new shares. For the two last methods, one has to go to the capital market, where there is competition and therefore past performance and rentability on the one hand and the trust the public and the banks have in the quality of the management on the other hand, are the only means by which competition in the capital market can be met. Profit, cash flow, performance and trust are the paramount factors for future financing. When we exclude from consideration here the position of shareholders, the highest authority in AKZO is the Board of Directors, consisting partly of pensioned former able top managers out of the company or from outside and partly of at present active top managers from industry or banks. Major decisions for the whole company with regard to investments (about \$ 150,000,000 in 1969), acquisitions and/or mergers, financing and budgets are reviewed critically and objectively and eventually approved or disapproved by this board on a bimonthly basis; for special situations in between a small committee out of the board convenes with the Board of Management, the group that has the daily and executive responsibility for the performance of the company. This Board of Management consists of 15 members. These are appointed by shareholders on the recommendation of the Board of Directors. They usually come from within the company and are selected on the basis of proven ability. The Board of Management submits all the proposals it has to get approved by the Board of Directors. The AKZO company has a relatively small central staff, with some of its Management Board members being responsible for the central functions, which are mostly specialized service departments (computer, financing, legal, insurance, construction-engineering) or specialized co-ordinating departments (research co-ordination, personnel, management development, labour contracts). The business activities are divided up into a

number of operating divisions or companies, which are in themselves highly decentralized units with their own Board of Management at the divisional or company level. The chairman of this board of management is representing his unit in the AKZO board of management.

2. The Salt Chemical Division

One of the units of AKZO is the Salt Chemical Division or KNZ, with + 4000 employees and investments in The Netherlands and abroad. The Board of Management consists of 7 directors and 2 assistant directors and is fully responsible for the rentability and continuity of the division. They are appointed by the AKZO board of management, AKZO being the only shareholder, and have all come up from the ranks of the company with company service ranging from 8 to 22 years. All of them have had previous experience with other industrial companies and none of them has any relationship to shareholders or stock-holdings. Their ages range from 39 to 51. Apart from the general role of the chairman, all members have, next to their collective overall responsibility, specialized functional responsibilities over geographical or organizational subunits, and some central staff functions. This group meets practically every week and discusses and decides on all major issues for the division or prepares the proposals that have to be approved at the AKZO board level (investment projects over \$ 70000, acquisitions, budgets, loans, etc.). All subjects that are discussed and decided in these meetings have been prepared by the appropriate functional member (or in some cases members) of the divisional management board. This member, or these members, will have conceived the ultimate form of the proposal in full and open consultation with his direct collaborators who in their turn have done the same. Although it must immediately be conceded that this system does not always work as ideally and perfectly as outlined here, the evolution is more and more strongly to decentralizing the decision making and shaping and to achieve more and more participation at each level. This means that at each level a team effort is being aimed at where the leader of the team has decision making authority or the authority to participate in the decision shaping at the next higher level, depending on the specific subject. The best illustration of this system is shown in Figure 1 (see last page of this article). The achievement of the most effective way of compromising between authority of the heads of the units and the participation of the members of the units needs some fundamental additional elements:

- (1) A long range planning procedure, which analyses the strong and the weak points of the organization and the needed action to achieve long range objectives. This tool is not only necessary for the management, but also serves as an information medium through the whole organization;
- (2) The divisional board of management has to define as clearly and frequently as possible its quantitative and qualitative objectives and expose the

main participants in the decision shaping and the decision making process to these objectives in an as direct and personal way as possible. This is being achieved through presentation to a group of about 50 people, consisting of the middle and lower management groups.

- (3) Promotion and activation of participative management at all levels (see Figure 1).

This is systematically being done by a special staff, who does not have direct line responsibilities but whose primary task is:

- (a) To widen the circle of responsibility around each individual;
- (b) To promote and propose the levels of authority as a consequence of and in line with this wider circle;
- (c) To induce the higher levels of authority to organize for maximum participation and delegation;
- (d) To have job descriptions made of and by the people involved, expressing what has been achieved in (a), (b) and (c);
- (e) To promote and install a systematic and frequent review of performance on the basis of the job descriptions and to see that promotion is effected wherever necessary and possible.

Supplementary to the necessity of a long range planning procedure as mentioned under (1), the four planning-objectives for the Salt Chemical Division are the following:

- (a) The objective of Long Range Planning is to achieve a systematic determination of the influence of anticipated internal and external developments on the freedom of choice by the SCD in drafting alternatives for its own future development;
- (b) For all operating units and in all their sectors plans for the future are made. By means of a formalized planning procedure the information and communication should be optimized in all directions;
- (c) On the basis of (a) and (b) the plan is to provide for insight and information which enable the board of management and the executive personnel to adopt a management policy by which also in the long term the realization of the objectives of the SCD is guaranteed;
- (d) Within the scope of the management to be established in the above way and of the optimization of communication and information mentioned in (b), both the execution and the responsibility for this execution should be delegated as much as possible, as far as planned activities can be indicated already.

Summarizing the goals in (2) and (3) as information about the decision shaping and the decision making process, widening of the job responsibility, and creation of a systematic career-planning, we have to face the consequences of these goals for the authority of the board of management. I would like to emphasize that compliance with these goals will not and does not have to lead to a change in the distribution of power, but only in the way in which the management board

exercises its authority. The management board, and at a lower level the heads of the units and subunits, are the bodies that are assigned to make the final decisions, provided however, that these are made with appropriate regard for the constructive contributions by lower level employees. In the present management philosophy the Board of Management is not only willing to accept this contribution, but is even considering it a condition for a good functioning of the enterprise.

E. Concluding remarks

In the Western countries a gradual change from private manager/owner to employee/manager with more or less unidentified owners can be discerned. In Yugoslavia on the other hand and out of a completely different historical background, a system unknown in the Western world has abruptly been created, where there has been a sudden change from a state ownership and centralized government bureaucracy to the working community (employees!), with also, but differently, an unidentified ownership. Very generally speaking it seems that from two different starting-points the operational set-up is in many respects similarly trying to achieve the optimal combination of on the one hand the advantages and always necessary elements of ultimate organizational authority and on the other hand the fullest possible freedom for the individual to participate in the decision making process and the development of individual creativity. There remain very essential differences, such as the shareholding and the appointment of the managing director. Some aspects of the functioning of the Yugoslav system seem bound to introduce static factors. Also the international development does not appear to be equally possible as in the Western countries. On the other hand both the similar and the different approaches are mutually instructive and inspiring. Let us hope that we can find common ways in the future to help this world evolve into a strong and balanced human society.

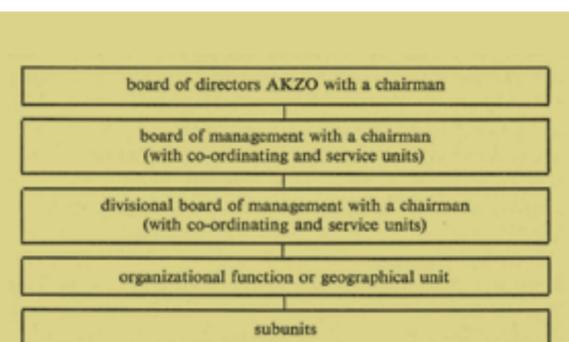


Fig. 1.