
RESEARCH PAPERS

by

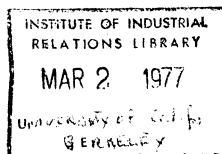
ICHAK ADIZES,

I, THE DEVELOPING NATIONS AND SELF-MANAGEMENT,

II, PROBLEMS OF IMPLEMENTATION AND THE ROLE
OF PROFESSIONAL MANAGEMENT

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Foreword i

The Developing Nations and Self-Management 1

Problems of Implementation and the
Role of Professional Management 28

FOREWORD

The Origins of Self-Management and its Modern Manifestations

The idea of self-management is not completely new. It has had predecessors in the Paris Commune; the Russian Soviets; the Workers' Councils of northern Italy which were encouraged by the newspaper Ordine Nuovo; the Workers' Councils in Germany in 1918-19; the shop stewards' movement in England; the self-managed enterprises in the Spanish revolution; the co-determination movement in Germany; the joint consultations in England; and the kibbutz and moshav organizations in Israel. It has surfaced spontaneously in periods of revolution, as in Poland and Hungary in 1956 and in Czechoslovakia in 1968. Its theoretical sources include Fourier, Owen, Bakunin, Proudhon, Marx, Engels, Trotsky, Sorel, De Leon, Lenin, and Rosa Luxemburg, among others.

However, the concept of self-management is not peculiar to socialist thought, at least not in all its components. Management in the United States is also coming to view that managers should represent the whole community of which they are a part, rather than the exclusive interests of stockholders, and should be responsive to the interests of society in general rather than to the exclusive pursuit of profit maximization. Contemporary American theory of management is more humanistic than it used to be; it tries to provide some rewards for labor beyond a paycheck, and to encourage business enterprises to pursue goals that are wider than the purely economic. Schools of management are now teaching managers to seek authority by acceptance and influence, rather than to rely on hierarchical power. The trend toward profit sharing and other participative practices shows the influence of this change in attitude.

The new post-industrial capitalism is humanistic, but that does not change the basic capitalist structure; management is elitist, labor is manipulated, society is based on conflict because each group is expected to try to maximize its own goals. Participative management only tries to make the structure more flexible and more representative; it does not change its basic tenets.

Some of the movements such as the participative organization theory which try to make organizations more flexible and to improve the quality of the workers' lives are, in my opinion, hardly more than taking bufferins to cure cancer. In the market systems, society is ridden with trends for centralization and strong government; labor tends to establish a countervailing power opposed to government and management, and this opposition causes inflationary trends to skyrocket, a process in which both labor and management lose. Profit-sharing and similar movements intended to improve the

lot of the worker are positive, but the improvement might be too small to be really significant. Changes made at the working place cannot solve the real problem, which, in my opinion, is systemic. The system that relies on "the hidden hand of the marketplace " has met its limits as a system that can generate comprehensive public welfare. The hidden hand is increasingly becoming the visible hand of government. We appear to be well on the way to a welfare state in which most of the population is "on welfare" so far as its ability to affect its own political, social, and economic destiny is concerned. Self-management is a new system with a promise, because it is a system that seeks comprehensive social and political goals without eliminating the market, and without strengthening the hand of government. It is attempted here to describe how the system works in practice and the problems it has encountered in implementation.

Research Papers No. 1 and No. 2 contained in this volume have appeared as Chapters 1 and 10, respectively, in the Spanish edition of the author's book, *Industrial Democracy, Yugoslav Style*, published by the Fondo de Cultura Economica, Mexico City, 1975.

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THE DEVELOPING NATIONS AND SELF-MANAGEMENT

The Market and Statist Alternatives¹

The study of self-management is a subject of interest to both developed and developing nations. But it is of special interest to developing nations; certain aspects of the Yugoslav system have in fact already been adopted in Peru and other countries. Let us consider the reasons for this interest.

Developing nations are confronted with a major task. They must achieve a certain level of economic growth and per capita income in order to improve the quality of life among their citizens and to compete with the developed nations.

But they are confronted with major barriers to comprehensive social-political-economic growth.² To be "developing" or "undeveloped" is to be afflicted with illiteracy; lack of social mobility; technological backwardness; social customs which hinder industrialization; and a scarcity of human capital possessing the entrepreneurial spirit. The difficulty is not just economic backwardness; it is the combination of these interrelated factors which enforces a low rate of economic progress.

In their efforts to accentuate economic growth, developing nations have tried to draw from other political and economic systems lessons which can be applied to their own systems. The two major political and economic systems which present themselves as options to the developing nations are the statist (centrally planned) system and the market system. There exist several variations of these two basic systems, but I do not consider them to be so conceptually distinct from their respective parent systems that they merit separate treatment.

The two systems have much in common. They both rely on
1) *macro mechanisms* for the resolution of conflicts; 2) *hierarchical structures*; 3) *exclusive goals*; and 4) *univalent government*.

Macro Mechanisms

To take the first common denominator; both systems assume that conflicts which arise between various interest groups within the society will be resolved by forces external to those groups.³ These conflicts take place in the state of uncertainty which characterizes any changing

environment; and this element of uncertainty is increased by the fact that social, politico-ideological, and economic goals are achieved at different times and compete for resources and policy commitments. The statist system assumes that conflicts between different kinds of goals will be resolved and allocations of resources made by the government, while the market system assumes that these matters will be determined by the market mechanism.

If a developing nation follows the model of a statist economy, the government nationalizes most economic enterprises and monopolizes the natural, financial, and human capital (I mean by this last that section of the population which possess managerial and entrepreneurial spirit). These scarce resources are nationalized: they are controlled by an exclusive employer--the government or the military organization--and allocated to various uses. Furthermore, in order to fully control the environment, the government controls socio-political activities as well.

This approach to economic growth through nationalization and government control of capital, know-how, and socio-political activity can achieve economic growth in the short run but can also have disadvantageous long-term repercussions for economic growth and for social and political welfare as well. Nationalization strengthens the functions of government and in the long run leads to a de-democratization of society: citizens become excessively dependent on the government for economic and political survival, a condition which produces alienation and lessens the participation of the general society in political activity. Furthermore, economic growth through central planning appears to be functional so long as the planning is applied to macro-changes in economic activity, e.g., the transfer of resources from agriculture to heavy industry. But when attempts are made to expand productivity to consumer-related industry, the bureaucratic machinery of central planning is capable of committing crucial mistakes. A certain amount of decentralization is necessary in order to ensure prompt reactions to changes in the market; diversified decision-making distributes the risk, allowing mistakes in planning to be balanced by different participants in the market place. But once centralized government has become omnipotent, the process by which economic decentralization and the eventual democratization of society are achieved becomes long and problematic, because decentralization usually arouses the hostility of those in power by making them fear that they will lose political control. This will happen even when the government realizes that central planning should be relaxed and market power introduced.⁴ Thus the statist approach to economic growth has socio-political repercussions: decision-making is centralized and political expression is constrained. This approach can easily lead to a petrified political system with built-in resistance to change. It does not provide for long-term comprehensive social change.

The other approach to economic growth, the market system, uses the market mechanism to allocate financial and managerial capital to those activities which are considered to be most desirable. This approach encourages capital inflow from abroad because there exist many opportunities for high returns on investments in countries where internal competition is low and the internal market under-exploited; furthermore the high level of return on private entrepreneurship stimulates hyperactivity in the economic sphere. Such an approach can create a fast economic "miracle," and in the short run it seems democratic because it is economically pluralistic. But this approach can also have prolonged and unfortunate socio-political repercussions. Those elements in society who are culturally, educationally, and economically better equipped to compete will generate large monetary returns for their investments, and in time this process will produce economic polarization and increase inequities in the class structure. Furthermore, the imported capital, which is almost exclusively interested in maximizing the economic returns on its investments, is not necessarily concerned with the *comprehensive* social welfare of the society in which it operates. If businessmen have difficulty being "socially responsible" in their own countries, why should we be surprised if they act in socially irresponsible ways abroad? In general, those elements in the society who are incapable of competing and who do not benefit from the growth of the economy fall into cultural and economic traps from which it is difficult to emerge because the gap between the "haves" and "have-nots" widens rapidly. Income polarization will also produce a polarization in political activity, because those who achieve economic welfare and power will participate more in politics, a participation which will in turn further improve their economic position; they will become a much stronger interest group than those whose poverty compels them to occupy themselves with basic economic needs rather than with political influence.

Furthermore, there are limits to economic growth in this system, as there are in the centrally planned system. Capital becomes concentrated in big business or big investors and such concentration of economic power can be disadvantageous because it can amplify mistakes. If government tries to halt capital concentration via anti-trust laws, this intervention will not only increase the power of government to an undesirable extent but it may also impede the economic plans of business enterprises and further limit their interest in growth.

So I suggest that both the statist and the market systems, which are similar because they rely on *external* macro mechanisms to guide the behavior of organizations within their societies, will have results which may be functional in the short run and in the economic sphere, but which in the long run will prove to be dysfunctional in the economic, social and political spheres.⁵

Organizational Hierarchy

The two systems are also similar in that the organizations that comprise them are hierarchically structured. The principal characteristic of the hierarchical type of structure is the strict distinction between management and labor.⁶ Management is appointed by outsiders; it defines the goals of the organization and is entrusted with the responsibility of achieving them. Labor is regarded as only a means to that end. It is paid what the market dictates or the government considers adequate; the employees are thought of as an extension of the machinery, and they may be replaced by machinery if there is economic justification for it.

In such a system the main functions of management are planning and control. Management must plan what the members of the organization are to do, and it must control the organization so that it will act according to that plan. The workers, more often than not, have no say in either planning or control. This is an oppressive, exploitative, and elitist conception of management. Labor is hired to perform a certain job, and when no longer required for that job it must be removed or retrained. The purpose of management is not to further the interests of labor, but to put labor to the most productive use from the point of view of the goals of the organization--goals in whose determination labor had no share.

This exploitative and hierarchical type of corporate structure is not confined to the capitalist system; we also find it in the centrally planned systems of the Communist states, in which workers are controlled from the top down in the same exploitative and manipulative manner.

Because they are inherently exploitative, such hierarchical systems do not necessarily and inherently develop human capital. By human capital I mean the political consciousness of the general population and the degree of their involvement in social and political endeavors; I mean their cultural, educational, social, physical, and mental health needs. Human capital is the embodiment of the human capabilities not only to produce economic results but also to participate in social and political life. These are the human resources which are necessary to put financial and natural resources to use. The higher is the investment in human capital, the higher will be the capability of individuals to act independently, creatively, entrepreneurially and thus, in the long run, managerially. Lack of investment in human capital in developing nations is an important deficiency because the encouragement of indigenous managerial expertise should be one of the major goals of developing nations, if they wish to develop indigenous sources of growth.

Exclusive Goals

A third characteristic common to both centrally planned and market systems is that in theory each organization is entrusted with an exclusive goal. To the classical economist and the traditional businessman, "the business of business is business," i.e., profit.⁷ In the centrally planned economies, each organization is given a task, usually measured in productivity, from which it is not supposed to deviate. In both these systems, social goals are means to the ultimate goal of profit or productivity. Motivation is regarded as a vehicle for increased productivity rather than as a goal in itself.⁸ One constantly meets examples of this manipulative orientation. I once asked a manager whether he would be willing to re-design his organization in order to achieve higher motivation and satisfaction among the workers even if there was no assurance whatsoever that productivity would increase. He looked perplexed and said, "I have to think about it." In a film on motivation which I saw recently, the lecturer began by saying, "This film deals with how to motivate people--how to get the most out of them." Human factors seemed to him just another set of variables to be manipulated for increased economic effectiveness.⁹

Univalent Government

The fourth and final similarity between the two systems lies in the fact that they rely on univalently structured government. Univalent political institutions are based on the representative principle: they are staffed by professional politicians whose function it is to decide what courses are optimal for the society, and to resolve the inevitable competition among various social, economic, and ideological goals for resources and commitments. The role of the politician is to be aware of the needs of the various interest groups in society and to try to strike a balance among their demands.¹⁰ This type of government frequently has dysfunctional results. The sharper the conflict among social goals the greater becomes the power of the professional politician who must resolve these conflicts and of the government that must implement the solution. Society may try to control this power by introducing a high rate of rotation in political positions; but this does not help to resolve the initial conflicts, for it replaces a strong government with a weak government. In both cases, there are dysfunctional results. In the first case, de-democratization of society may occur. In the second case, there will be increased turbulence and dissatisfaction, which may lead to severe disillusionment with the democratic political system and may create the conditions for a return to stronger, more centralized, and less democratic government. The reliance on professional politicians to identify social goals and on a unified governmental

structure to implement them leads ultimately, I believe, to a stronger government and to the de-democratization of society. When government is staffed by professional politicians, short term political interplay rather than long term social goals will frequently determine action; politicians can become entrenched in their positions and come to rely for re-election on governmental power. The democratic process may eventually be reduced to a ritual and a shell.

Each system is a mirror of the other and both are characterized by hierarchically structured organizations which pursue their own exclusive goals. Social conflicts are resolved through mechanisms which are external to each organization.

The variations on these systems do not introduce any new conceptual framework: They are characterized by hierarchical organizations, exclusive goals, and external (macro) mechanisms for the resolutions of conflicts among the various interests.

The Self-Management Alternative

If we are searching for a system which will enable us to achieve comprehensive change, including economic growth, social mobility, and the political potentiation of the masses, I suggest that the self-management system as it has been developed in Yugoslavia deserves consideration. I do not imply that the Yugoslav form of that system need be precisely copied; but the Yugoslav system is a useful starting point for an attempt to construct a model of self-management as an alternative to the market and statist systems.

Essentially self-management means the involvement of all members of an organization in the ownership and control of the organization. People are not just objects for planning and control by some elitist group which asserts an exclusive prerogative to make decisions for them; people participate in determining the goals which they will pursue. The self-management system is thus developmental and humanistic. It is developmental because it tries to enable each individual in an organization to manage himself: he must be potentiated to feel himself capable of participation and self-rewarding. It is humanistic because it puts the organization at the service of each individual in it, rather than treating each individual as a tool in the hands of the organization.

This humanistic and developmental conception of management aims at the development of a new kind of society. It intends to produce a "new man": a man who is not subordinated to the technological process, who is not a manipulated element in a macrosystem

Chart 1: The Statist (Centrally Planned) System

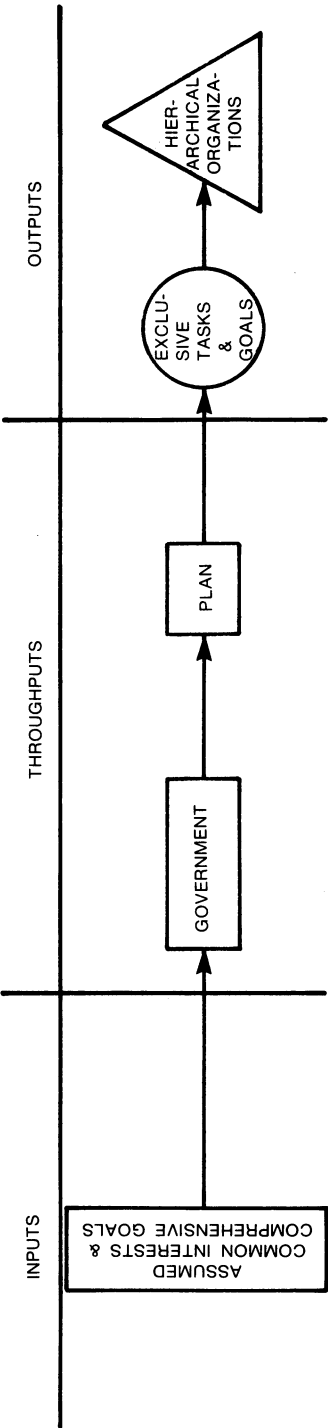


Chart 2: The Market System

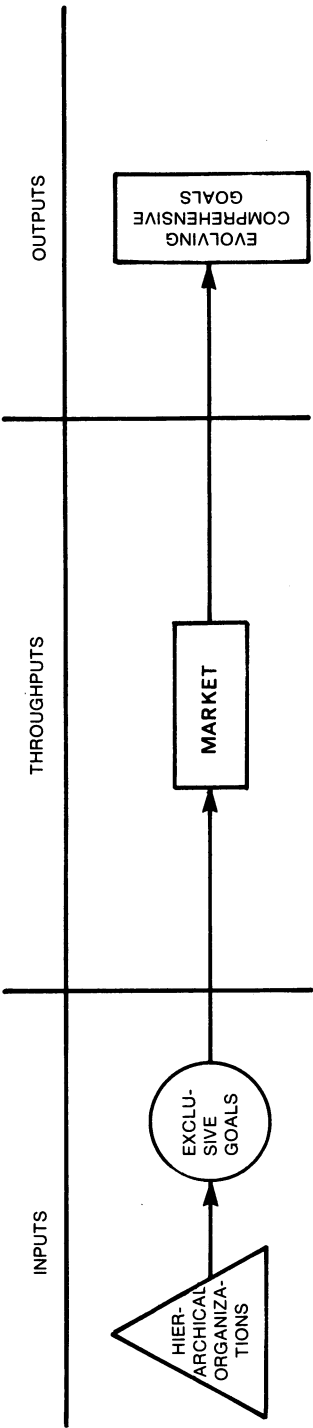


Chart 3: The Partially Decentralized Statist System

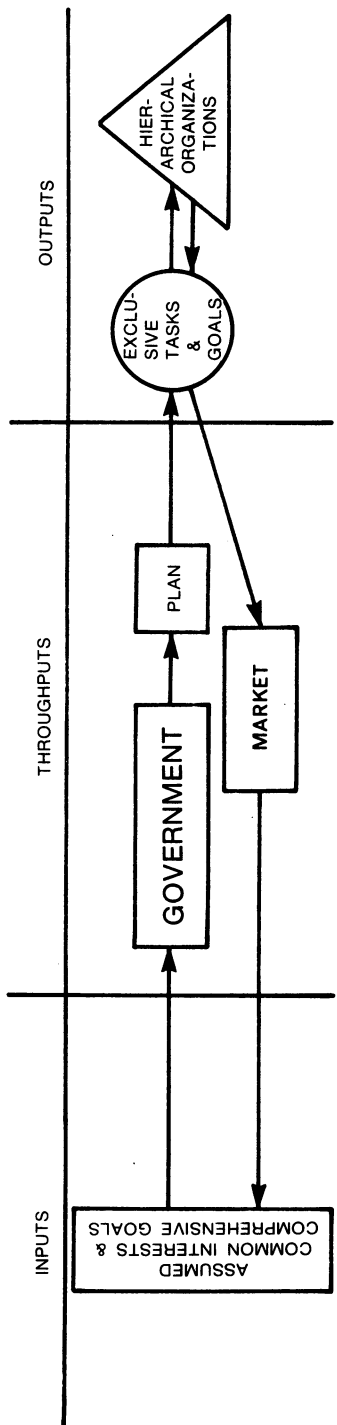
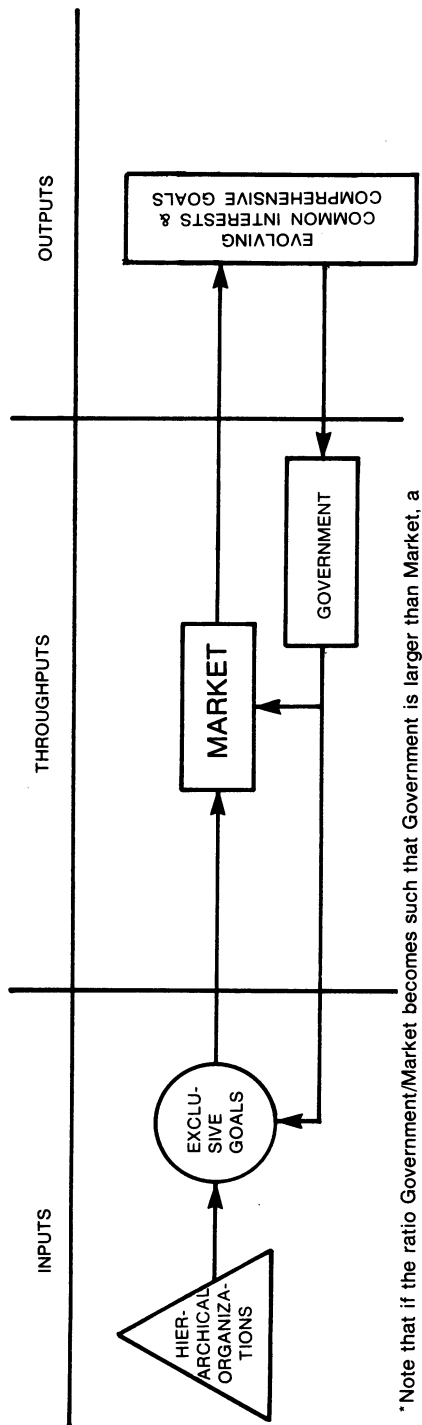


Chart 4: Regulated Market System*



*Note that if the ratio Government/Market becomes such that Government is larger than Market, a transformation might occur: instead of evolving common interest, one might get assumed common interest. In that case, common interest becomes an input rather than an output, and Chart 4 might resemble Chart 3.

over which he has no control; a man who will be master of his own destiny. So the Yugoslav system of self-management has political and social as well as economic dimensions. It is not simply a program for the restructuring of individual enterprises, but involves a program for the restructuring of an entire society.

Self-management is sometimes identified with workers' participation or industrial democracy; but in Yugoslavia this institution is considered to be only one component of a fully developed system of self-management. Using the Yugoslav system as a model, I would like to expand the concept of self-management to include all the following characteristics: 1) *the working market mechanism*; 2) *democratic management of all organizations*; 3) *social ownership of social capital*; 4) *polyvalent government*; 5) *decentralization of government and delegation of most of its functions to community organizations*.¹¹

Self-management differs from the statist and market systems in several respects. Its organizations are democratic rather than hierarchical; they seek multiple goals rather than exclusively economic goals; government is polyvalent rather than univalent. It relies on a market mechanism where capital as a source of power is restricted, and labor holds power to run enterprises and to determine income distribution.

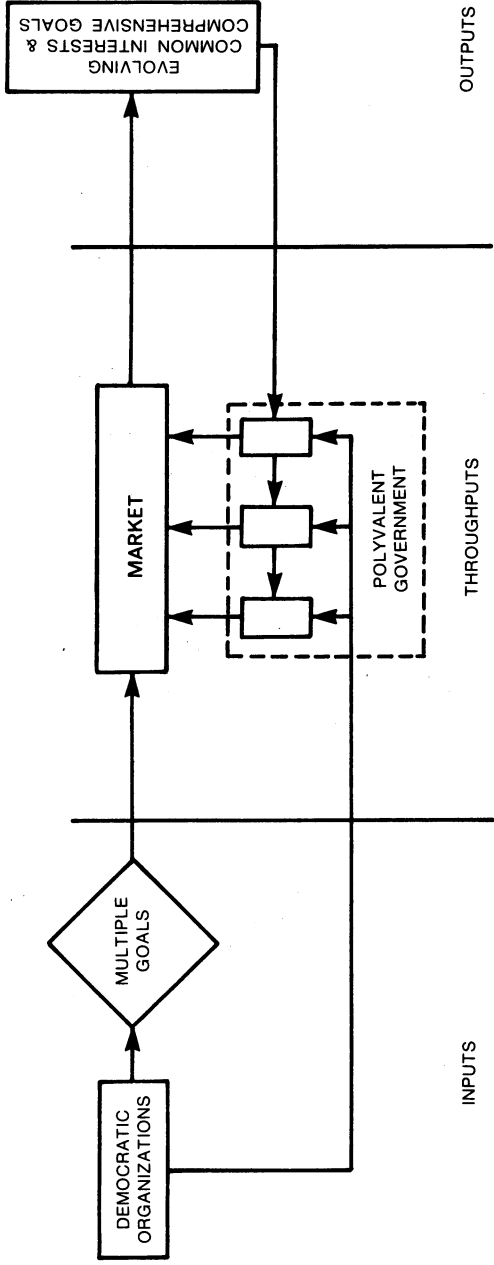
The Working Market Mechanism

Self-management depends on the market mechanism to regulate economic activity, because it is a democratic system and democracy assumes pluralism in the sources of power. The market mechanism provides pluralism in economic life and at the same time it allows for a rational distribution of resources and incentives according to performance.

Democratic Management

By the democratic management of enterprises I mean a system in which the management of an organization is appointed by, recalled by, and fully accountable to the members of the organization. Thus the German system of co-determination and other systems of participative management in which managers are appointed from the top down and by authorities external to the organization cannot be considered fully developed systems of self-management according to the definition presented here. Without this provision, management will tend to become an exclusive group exercising elitist methods of decision-making.

Chart 5: Self-Management



Furthermore, the organization must be decentralized in a manner which permits all members of the organization to make strategic and policy decisions for the organization. Only administrative aspects should be left to the professional management. In this way all members of the organization are allowed to decide matters involving their own interests, rather than serving as vehicles for the achievement of the goals of others. All the other points on the table below--the flow of delegation, the process of resolving conflicts, the constitution of boards of directors, the legal authority for decision-making, etc.--are designed to preserve the democratic character of the organization and eliminate the elitist nature of management.

The following table juxtaposes the democratic organizational structure of the self-managed organization to the hierarchical structure which characterizes enterprises in both the market and centrally planned systems.

THE DIFFERENCE BETWEEN AN ENTERPRISE
AND A COMMUNITY ORGANIZATIONAL STRUCTURE*

<u>Organ. Structure Variable</u>	<u>Hierarchical: Enterprise</u>	<u>Democratic: Community</u>
Goals	Exclusive, i.e., Mainly economic (for industrial organization)	Comprehensive social, economic, political goals (for all organizations)
Social goals:	Means to economic goals	Goals in their own right
Legal authority to determine goals:	Legal owners, probably outsiders to the community, represented by management	The total membership of the community
Organization is legally a vehicle for:	The investor, (owners) or government	The total community
Decision-making centers:	Primarily a state of centralization	Primarily a state of decentralization
Legal flow of authority:	Top down delegation	Bottom up and top down (circular) delegation
Distribution of managerial prerogatives:	Policy and administrative decisions made by professional management	Policy decisions made by the total membership; administrative decisions made by the professional management
Contribution to society:	Direct: mainly economic	Direct: economic-socio political
Assumed environment:**	Atomistic (competitive)	"fish-scale" (cooperative)
Conflict resolution between inputs (capital and labor):	Via <u>bargaining</u> between labor and management	Via <u>consensus</u> of the total community
Board of Directors representation:	Exclusively representatives of the owners or government, and mostly consisting of outsiders	Multiple interest representation accepted and mostly composed of insiders

* From I. Adizes: "The Role of Management in Democratic Organizations." Annals of Public & Cooperative Economy 42, (1971) p. 403.

** By an atomistic environment is meant one in which an individual feels himself to be part of an interest group in competition with other interest groups; by a fish-scale environment is meant one composed of overlapping interest groups, whose relationship is one of cooperation rather than competition.

Social Ownership

The self-management system is based on social ownership. Social ownership represents a total departure from all forms of private ownership. Private ownership gives an individual or a group an inherent right to dispose of an asset or to benefit from the fruits of its possession. In social ownership, an individual or a group can utilize socially owned resources and can benefit from the results of utilizing them; but they cannot dispose of socially owned production assets, nor can they benefit from them if not actually working with them. This means that after an individual leaves a company, he cannot benefit from its assets; there can be no absentee ownership or absentee enjoyment. Yugoslavs consider social ownership to be a basic tenant and a required condition for self-management. Exclusive managerial prerogatives are afforded only to those in a work relationship to the organization.

For clarity, the various forms of ownership are compared:¹²

I distinguish among four types of ownership--private, communal, state, and social. In this paper, ownership will mean the legal right to use one's property according to one's choice and the right and capability to benefit from the future fruits of one's past investments embodied in this property.

Private property will thus mean one's right to utilize, within legal constraints, one's property and benefit from the fruits of this utilization.

Communal ownership¹³ will mean that the community, or the participative system under study, its total membership or its legal representatives decide on the utilization of the property and on the distribution of the fruits. Communal ownership is thus an extension of private property. It is basically the private property of several people who agree on how to use and benefit from the shared property, retaining the freedom to take their individual shares out.

State ownership is communal ownership on a larger scale where society is represented by the state the way the community is represented by elected representatives in deciding how to deal with the communal property. In state ownership, however, members of the community do not have the right to pull out their share--a departure from private property. Thus, state ownership, while related to the private ownership concept, is not an extension of it.

The Social Ownership concept is a total departure from any extension of private property. Resources which are social

property do not belong to anyone but to society in general, which means in essence to no one and to everyone at the same time. There is no single institution that can claim that it legally represents the owners of the property. Those who work with these resources can benefit from the results of the use of these assets. However, they can only increase the resources overall and not decrease them. Once an individual quits the organization, he has no ownership rights over the past contributions he has made to increase these resources.

Polyvalent Government

By polyvalent government I mean a system in which the several interest groups that compose a society are provided with institutionalized channels for decision-making at the macro level which are independent of professional politicians.

A brief description of the Yugoslav constitution will be useful to explain this concept.¹⁴ The Yugoslav federal parliament is composed of four chambers. The Peoples' Chamber consists of 20 representatives from each of the six republics and 10 from each of the two autonomous territories, all elected by the parliaments of the republics and territories. The Social-Political chamber, which has 120 members, is chosen by direct popular ballot and is numerically representative of the Yugoslav population. The other three chambers, each with 120 members, represent special interests and are chosen by electoral committees which are made up of delegates from the communal parliaments and from the various organizations involved; the members elected to these chambers must be actually working in the field to be represented, and are distributed according to the proportional ratios established in the election to the Social-Political Chamber. The Economic Chamber represents the industrial organizations and chambers of commerce; the Educational-Cultural Chamber, the universities and other educational, artistic, and cultural institutions; the Social-Health Chamber, the medical associations and other institutions concerned with public health and welfare.

The Peoples' Chamber and the Social-Political Chamber have joint control over foreign affairs, the budget, the appointment and removal of ministers, and all internal matters not specifically delegated to the other chambers. In addition, the Peoples' Chamber has independent authority to deal with relations among the constituent republics. Economic policies are left to the Economic Chamber; educational, cultural, and scientific policies to the Educational-Cultural Chamber; matters of social welfare to the Social-Health Chamber.¹⁵

The parliaments of the several constituent republics and territories are structured in the same way.

The most important feature of this structure is, again, the existence of institutional channels by which the several interest groups of society can be directly represented. The representatives who are elected to the regional or federal parliament by their respective companies or organizations remain on the payroll of these organizations and retain their loyalty to them; and these positions are rotated regularly, no one being allowed to serve two successive terms as a member of parliament, in order to ensure that the office-holders never become a professional group and that the office retains its participative character. Polyvalent government means, above all, the encouragement of direct participatory democracy rather than representative democracy. The system is designed so as to prevent the appearance of a party system and the influences that accompany party systems, which are chiefly characterized by professionalization of the political office and power struggles. The Yugoslav system is based on the direct involvement of working people through representatives who work with them in the same community; since all the bodies of government are obliged to consult with these direct delegates from the self-managed units, there is no need for a parliament organized on the lines of a classical party system. Only the Social-Political Chamber is composed of political representatives in the classical sense, and it has no authority to legislate without the approval of the Peoples' Chamber, which is chosen by and from the regional parliaments organized on participatory lines.¹⁶

Chart 6: Univalent Government

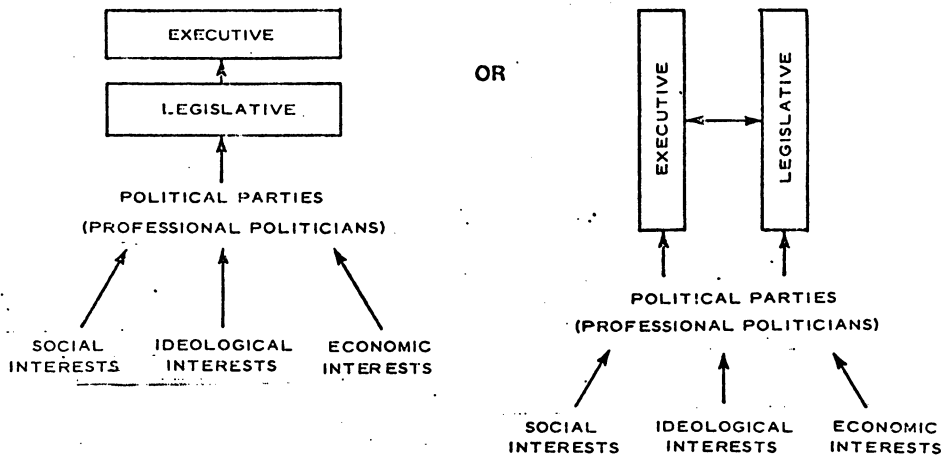
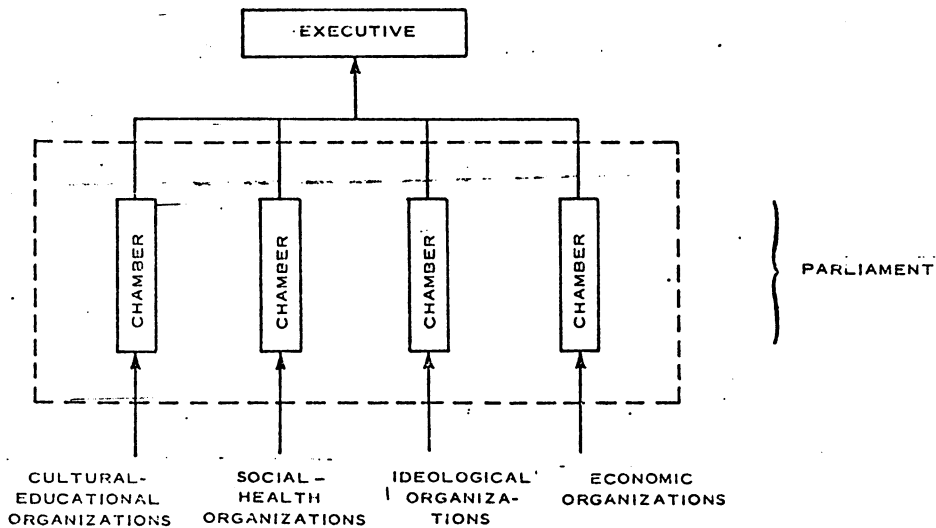


Chart 7: Polyvalent Government



Polyvalent government is closely connected with the institution of democratic management discussed above; in fact, it seems to me that democratic management within organizations is practically essential to the success of such a system of government. Once workers realize that they can control their own enterprises by controlling the results of their work and their managerial group, their interest will go beyond immediate economic concerns. The workers have put pressure on their representatives in the legislative bodies, local, statewide, and general, to legislate social policies and political policies as well. Workers soon realize that economic results are affected by political and ideological judgments, and they will request a share in participating in this field.

Economic decentralization in Yugoslavia boomeranged on the Yugoslav League of Communists. Pressure was put on them to decentralize--to accept pluralism and ideological diversions. The fact that the party was not willing to loosen its power as a result of such pressure, and that from December 1972 on it tried to reestablish its power in economic and political matters, is an example of how increased freedom in economic decision-making diffuses itself into political matters. The self-management system via polyvalent government actually threatens the party in power. It reduces the involvement of the party to ideological matters, which is inimical to the nature of a party; political parties by their nature are geared to accumulate power rather than release it. The economic potentiation of enterprises through the market mechanism, the democratic structuring of organizations, and polyvalent government will promote the political potentiation of the workers without strengthening the professional politicians. It is especially desirable to avoid strengthening the professional politicians in a society where most of the population is poor, uneducated, and unaccustomed to democratic processes; in such societies representative democracy has a strong tendency to become elitist and ritualistic.

I regard polyvalent government as an essential feature in self-management: it is an essential vehicle for the socio-economic and political transformation of society, and an essential means for its democratic development. It minimizes the task of political parties and enables social and economic legislation by the democratically elected representatives of the interest groups involved via institutional channels, and it provides constitutionally controlled processes to secure their non-elitist character. Without such institutional channels, government will tend to become excessively strong and regulative; it will be staffed by professional politicians who, because of the low degree of social and political development of the population, increasingly become elitist in attitude and behavior. This process must inevitably limit the degree of political participation of the masses and empty the democratic process of its content.

Community Organization

The final component of self-management is community organization. Decentralization of the functions of government, combined with the polyvalency of governmental-political institutions I described earlier, should produce a society in which much of the essential decision-making is done at the local level.

Consider, for example, the commune in which the factories I describe resided. All of the members of the decision-making bodies of the commune were members of the various enterprises that reside within the geographic boundaries of the commune. They are on the payroll of the enterprise, although during their mandate they spend most of their time on the community affairs. Having a stable and secure income enables these delegates to deal with community affairs, on a full-time basis without having to rely, as professional politicians must, on party directives or on their standing in the party hierarchy. Furthermore, the delegates come from different institutions, economic, educational, social, health, cultural, etc. When a decision is made on the community's affairs, social goals as well as economic goals can be sought in a comprehensive way between various representatives on the local level; they do not have to rely on distant governmental bureaucracy to resolve it for the community. Social welfare problems are taken care of by the local enterprise; so are the problems of the local theatre; and so forth. For instance, if there are problems of water pollution the local community can put pressure on the polluting enterprises' representative in the community to relay the community's concern to the workers council of the polluting enterprise and the delegate reports back on how the enterprise reacted on the issue. Thus multiple representation--link-pin organizational structure on the community level--is so structured as to enable conflict resolution between social-economic interests not exclusively through the market mechanism, but through a political process that does not have to rely on a political party. The political process I refer to is the process of discussions, clarification of issues, and "pressure-peddling" with arguments.

To enable the community to develop its community conscience and decision-making capabilities, much power has been delegated in Yugoslavia from the central government to the republics and from the republics to the communes. I noticed in 1973 how much matters had changed in this respect from 1967 or 1970. To acquire a permit to do research I no longer went to the central government or to the government of the republic as formerly, but to the commune in that part of the city where the enterprise I wanted to study was located. People with political ambitions were seeking positions in the communes rather than at the higher levels of government. Several ministries had been eliminated, and their functions had been distributed among the republics. This decentralizing trend could

be attributed to nationalism, it is true, but I believe it can also be attributed to the self-management system, which has provided the channels through which these nationalistic pressures could be partially gratified.

Decentralization is a crucial component of self-management. Since the system aims at the full potentiation of all members of society, it requires direct rather than representative democracy, and decentralization is an essential means to that end. Decentralization produces a town-meeting atmosphere in which, via rotation, all members of the community can participate in decision-making and, through the institutional association of various interests in the decision-making process, most problems can be solved at the local level without requiring the intervention of higher authorities.

Why Self-Management?

Let us now try to summarize the arguments for the superiority of self-management over the market and statist systems, especially from the point of view of the developing nations.

(a) *Economic Growth*¹⁷

Self-management, like the capitalist system, has the advantage of generating fast economic growth. It is based on a regulated but decentralized and competitive market mechanism which rewards economic efficiency and stimulates production. At the same time, it avoids the tendency to overconcentration and the tendency to resolve conflicts via governmental intervention which are inherent in the regulated market system. Self-management is by definition decentralized, and decentralization is an aid to survival in a complex environment. It also encourages capital formation in a way that the market system does not: the participants in a self-managed organization are willing to make sacrifices in their income for company investments since they know that they will all share in the results.

(b) *Avoids Polarization in Social Stratification*

While it generates economic growth, self-management avoids the principal disadvantage of the free market system in that it does not allow an inordinate polarization in economic welfare. Disparities in income are restricted by consensus of the members of each organization and by state legislation; and when such polarization occurs it is unlikely to become permanent because the system of participative management places all decisions on salary range under constant review by all members of the organization.

(c) *Eliminates Exploitation*

Self-management eliminates the exploitative relationship between management and labor characteristic of hierarchical organizations. The point has already been made that this elimination has certain economic advantages. It will be suggested below that there are also social advantages connected with it. Here let us point out that the idea in itself has a certain humanistic value: it restores to the individuals in an organization a sense that they are human beings who can manage their immediate environment, not mere inputs for production and not mere instruments to be used for someone else's purpose.

(d) *Develops Human Capital*

The elimination of the labor-management distinction will have the effect of facilitating social change. Workers are required to learn how to manage their own organizations if they are to produce results; they cannot participate unless they know what they are participating in. Self-management thus provides managerial experience for a large group of people in a relatively short time. It provides a school for developing managerial and entrepreneurial expertise, the human resources which are so badly needed by developing nations.

Unless the developing nations have the managerial know-how to exploit technology profitably and adapt it to local conditions, they will be dependent on imported technology for a longer time than they can afford. The problem is not only the scarcity of capital; the problem is also the scarcity of local managerial expertise which can put that capital to growthful use. Without such know-how, imported capital will not decrease the gap between the haves and have-nots; also, imported capital without local know-how means imported management, and the developing nation will remain dependent on foreign assistance.

The classical hierarchical system exposes only a few of the members of the organization to the practice of management. The more hierarchical the organization, the fewer people have the chance to be exposed to decision-making and risk-taking, and to sense the intrinsic rewards in these activities. The democratic self-management system exposes all members of the organization to decision-making and risk-taking. In this way the system attacks the most crucial problem of the developing nations. It is a learning environment for the society at large, allows a large managerial group to be created within a short period of time. When such a society is offered capital and technology from abroad, it has the local manpower and the entrepreneurial and managerial resources to exploit the imported capital for its own benefit.

(e) *Political Education*

Self-management promotes political participation. Once people feel economically secure and capable of controlling their own economic destiny, they will feel capable of dealing with political activity. People who are economically dependent on their rulers are less politically active than the economically self-sufficient; democracy has always been based on a large and financially independent middle class.

(f) *Limitations on Government*

The system also places restrictions on the power of government. It does not rely on political parties or on political machinery to resolve conflicts. The decentralized and labor-managed economy makes it possible to solve most conflicts at the enterprise level; and where government intervention is needed, the decentralized and participative political institutions place severe limitations on it.

Conclusion

From the point of view of the developing nations, the capacity of self-management to facilitate comprehensive change in the social, economic, and political spheres is of particular significance. This capacity has been demonstrated by the case of Yugoslavia, which in twenty years' of self-management has caught up with the developed world.¹⁸ The country has gone through a major economic, technological, socio-demographic, and political transformation. It has moved to a market economy, decentralized the governmental machinery, industrialized the economy, and carried out a massive redistribution of the population from rural to urban areas without creating urban decay, permanent income gaps, or political upheaval. There were difficulties between the several nationalities, but in my opinion these would have occurred in any case and would probably have led to bloodshed in any system other than one of self-management. I believe that the pressures caused by these changes would have led to resistance and rebellion by the workers in a corporate system where the workers are treated as passive receivers of change. The system of self-management, by producing organizations that are highly flexible and amenable to change, has enabled the country to weather these social, political, technical, and economic changes peacefully.

A system that allows for rapid and effective change should be of special interest to the developing nations, particularly so because it may enable them to avoid some of the problems that the already developed nations now face. The developed nations, (especially those that reached the so-called post-industrial stage) have arrived at a point at which the costs of further economic growth outweigh the benefits, and, as a result, their societies face major problems

of adjustment. The prospect of limitations on economic growth has threatened many interest groups and has given rise to many conflicts among government, labor, capital, and management. In both the market and statist systems, these conflicts must be resolved externally to the micro-organizations, in bargaining between the government and various interest groups, or in bargaining between the interest groups at the marketplace, or in struggles between governmental cliques. These conflicts, when resolved in the marketplace, can be extremely costly; strikes can paralyze a whole country and cause inflationary trends to skyrocket. When resolved through government regulation, the government will be strengthened and will become more powerful than is desirable for a participatory democracy; in a market system the cost of operating the government will increase to the detriment of the taxpayer, and in a statist system the process will lead to stronger and tighter cliques at the top. The developing nations would be wise to circumvent these problems. If they adopt a system now which will enable comprehensive change, they will not have to face the same problems of adaptation later on. By adopting self-management they can achieve a higher rate of economic growth, as Yugoslavia has done; and they can also develop a structure for conflict-resolution like that which the developed nations are now seeking. It will be most unfortunate if the developing nations import, along with the technology needed for their advancement, the accompanying elitist and exploitative organizational structures and value-systems. These are often alien to the traditional cooperative social structures that already exist in tribal and agricultural societies; and in the developed countries from which they are being imported, these exploitative structures are increasingly under attack and increasingly regarded as dysfunctional and obsolete.

When the developing nations borrow from the developed nations, they should imitate what is modern in their systems rather than what is obsolete. The developed nations are now actively increasing the participation of workers in decision-making on many frontiers. Significant changes are being introduced in the management of enterprises, as well as in the platforms of various political parties, which are intended to facilitate higher participation of workers and enable them to share in the results of their work. In Norway and Sweden the trade unions are very active in introducing "industrial democracy"; West Germany, since 1951, has developed the system of codetermination; and French socialists have made self-management their ideal of socialism. The Tories in Great Britain discuss in depth the possibilities of adopting a higher degree of worker participation, and in the United States participative management, profit sharing, democratization of the working place, and projects to improve the quality of working life are all signs of a movement to provide the members of society with expanded opportunities for self-actualization, which may eventually lead to some form of self-management. In the Netherlands, Belgium, Denmark, Israel, and

other countries, there is legislation to institute increased participation of workers in decision-making. Thus there appears to be a global movement away from hierarchy and absentee ownership--towards the democratization of society and of its building blocks, i.e., the various organizations that comprise it.¹⁹

I suggest that if the developing nations seek comprehensive social, economic, and political change, they should consider adopting a system which is capable of generating economic growth while at the same time stimulating social change and political education. The great advantage of the self-management system is that it is capable of accomplishing these ends without increasing the power of government or eliminating the market and without causing polarization in economic welfare.

Footnotes

1. Some of the issues raised in this paper are discussed at greater length in Jaroslav Vanek's The Participatory Economy: An Evolutionary Hypothesis and a Strategy for Development (Cornell University Press; Ithaca, 1971). Vanek also sees self-management as a system distinct from the market and centrally planned systems, and his book is an attempt to develop a theoretical model of the system based on the Yugoslav example. He thinks the essential economic advantage of the system lies in the fact that self-managed firms are capable of being highly competitive without eliminating their rivals, and so the tendency to overconcentration and monopoly which is inherent in a market system can be avoided (see especially pp. 21-38). Other points in Vanek's argument will be referred to where appropriate.
2. All the various theories of economic development--for a description of which see Benjamin Higgins, Economic Development (N.N. Norton; New York, 1959)--recognize some combination of these factors.
3. Most modern socialist theory, apart from Guild Socialism and Syndicalism, has assumed the necessity of a central planning board: see B.E. Lippincott (ed), On the Economic Theory of Socialism (University of Minn. Press; Minneapolis, 1938), and B.N. Ward, The Socialist Economy (Random House; New York, 1967), 1-162. Insofar as the theory of capitalism has abandoned faith in Adam Smith's "hidden hand" of the marketplace, it has come to rely increasingly on regulation by government or by oligopolistic corporations: see Andrew Shonfield, Modern Capitalism (Oxford U.P.; Oxford, 1965) and Daniel Bell, The Coming of Post-Industrial Society (Basic Books; N.Y., 1973).
4. Michael Gamarnikow, Economic Reforms in Eastern Europe (Wayne State University; Detroit, 1968) discusses the current disillusionment with central planning in the Communist bloc, and the difficulties that the Communist parties have had with decentralization in recent years (96-111).
5. Rudolf Bicanic, "Economic Growth Under Centralized and Decentralized Planning: Yugoslavia - A Case Study," Economic Development and Cultural Change (October 1957) 64-75, shows these disadvantages of the statist model using the Yugoslav experience as evidence. See the symposium on "Multinational Corporations" in Foreign Policy 12 (1973), 79-112, for a presentation of the issues involved in the current debate over the effects of the market system in developing nations. Also Raymond Vernon, "The Multinational Enterprise: Power vs. Sovereignty," Foreign Affairs 49 (1970-71), 736-51.
6. See the definition of the managerial function as presented in any standard textbook, e.g., Harold Koontz and Cyril O'Donnell, Principles of Management (McGraw-Hill; N.Y., 1955), 46-65.

7. Milton Friedman's Capitalism and Freedom (U. of Chicago Press; Chicago, 1962) is a defense of this position by a modern economist: social goals are the ultimate outcome of a system in which the only business motive recognized is profit.

8. Any discussion of the problems of motivation and personality in contemporary managerial literature reveals this attitude. See the theoretical treatment by Chris Argyris, Personality and Organization (Harper; N.Y., 1957), and his review of the recent literature, "Personality and Organization Theory Revisited," Administrative Science Quarterly 18 (1973), 1-17.

9. Most of the literature on self-management does not discuss the question of goals as such. It seems to be commonly assumed that the goals of self-managed organizations will be as exclusive as those of organizations in other systems. See H.M. Wachtel, Workers' Management and Workers' Wages in Yugoslavia (Cornell University Press; Ithaca, 1973) for a discussion of the economic literature. Vanek, in Participatory Economy (12-14), allows for multiple incentives in self-managed organizations, but it is not clear that he would admit multiple goals. It is my contention that economists assume singularity of goals in order to facilitate model building. My empirical sociological evidence shows, however, that self-managed industrial organizations, whether in Yugoslavia or in an Israeli kibbutz, do seek additional goals beyond profit. They are more than enterprises; they are communities and as such they seek the welfare of their members in education, health, and culture, rather than expect that those needs will be provided extrinsically in the general market. Thus, by their structure of social ownership and democratic decision-making they can afford to seek multiple goals for the enterprise and its membership.

10. The theory of representation described below is that which dominates modern political thought. See John Fairlie, "The Nature of Political Representation," American Political Science Review 24 (1940), 236-48, 456-66. Nearly all representation in modern democracies is numerically or territorially based, but there have been in fact a number of experiments with functional representation, and even where not formally recognized it exists in the form of interest groups: see E.J. Meehan et. al., Dynamics of Modern Government (McGraw-Hill; N.Y., 1966), 75ff. G.D.H. Cole, Guild Socialism Restated (Parsons; London, 1920), 27-41, presents an argument for functional rather than numerical representation similar to that advanced here. See Paul Blumberg, Industrial Democracy (Schocken; N.Y., 1969) 194-96, on the similarity between self-management and Guild Socialism.

11. Vanek presents a definition of self-management based on the Yugoslav system in his The General Theory of Labor-Managed Market

Economics (Cornell U. Press; Ithaca, 1970), 1-3 (cf. Participatory Economy, 7-14), which corresponds closely to the definition given here, except that he confines himself to the economic aspects of the system and ignores political institutions, which, to me, is crucial since the goals of self-management are more than economic in nature.

12. The following passage is taken from I. Adizes and E. Mann-Borgese, Self-Management: New Dimensions to Democracy (Santa Barbara, California, 1975: ABC-CLIO).

13. Cooperatives are examples of communal ownership.

14. See the Constitution of the Socialist Federated Republic of Yugoslavia, published by Sluzbeni List (Belgrade, 1973).

15. The Federal Presidium stands outside this parliamentary structure. It is composed of the presidents of the regional parliaments and additional representatives from each. At present, all of its powers are in the hands of the President, Marshall Tito; but after his death, the Presidium will assume the power of appointing the military, appointing ambassadors, and presenting candidates for the cabinet ministries. Cabinet ministers must be chosen from the members of the federal parliament and must be approved by parliament; the executive branch is under the joint control of parliament and Presidium. The Presidium may present ideas to the federal parliament, but has no control over legislation.

16. For a fuller description of the theoretical basis of polyvalent government, see the article "Further Development of Self-Management in Yugoslavia and its Social-Political Aspects" by Anton Vratusa, Deputy Prime Minister of Yugoslavia, in Adizes and Borgese, Self-Management: New Dimensions to Democracy.

17. The economic arguments for the capacity of self-management to generate fast economic growth are made by Vanek in his Participatory Economy (see n. 1); the theoretical basis for these assumptions is developed at greater length in his General Theory. Vanek also lays much emphasis on the capacity of self-management to encourage accumulation (145-48) and human capital (158-161).

18. The high rates of growth and investment and the improved standard of living in Yugoslavia are commented upon by all students of self-management: see Vanek, Participatory Economy 45-50; Blumberg, Industrial Democracy, 221-23; Wachtel, Workers' Management, 2-5; David Jenkins, Job Power (Doubleday; Garden City, N.Y., 1973).

19. On recent experiments in developed nations with self-managed institutions, consult Jenkins, Job Power; Campbell Balfour, "Workers' Participation in Western Europe," Participation in Industry (Rowman and Littlefield; Totowa, N.J., 1973), 181-212; and I. Adizes and E. Mann Borgese, Self-Management: New Dimensions to Democracy.

II

PROBLEMS OF IMPLEMENTATION AND THE ROLE OF PROFESSIONAL MANAGEMENT

Problems of Implementation

There have been serious difficulties in the implementation of self-management in Yugoslavia. The main problems appear to be the failure to recognize the role of capital in a socially owned economy; the dysfunctional behavior of managers; the difficulty of generating new enterprises while avoiding economic concentration; workers' alienation; and political transformations. These problems must be discussed in some detail.

Recognizing Capital

Yugoslavs consider social ownership to be a cornerstone of self-management. In my opinion, it is not a sine qua non condition. It seems to me that this requirement is based on the classical assumption that managerial prerogatives must be linked to ownership. Since the Yugoslavs have been determined to include all groups in decision-making, they have thought it necessary to establish the principle that all assets are socially owned, in order to ensure that no group can claim any exclusive prerogatives in decision-making. But I believe that participative decision-making does not have to be related to ownership. The important thing is not ownership, but control. People who have control will be committed to an organization even if they are not owners. Because the Yugoslav method of social ownership bans capital from having any voice in decision-making, this has created constraints on capital mobility. Individuals are even prevented from investing and from receiving interest on their investment. Social ownership places constraints on labor mobility and capital mobility. Labor mobility is discouraged because people who leave the company are unable to benefit from their past investments. Capital mobility is discouraged because individual investments cannot be made. Only a company can invest in another company, and a company which so invests cannot legally exercise any managerial right to determine how the capital is to be used. Because of these restrictions, private savings in Yugoslavia have probably not been put to use to the fullest extent.

The Yugoslavs have gradually come to recognize that capital has certain rights to returns on its investments. As I said, a group (but not an individual) contributing capital resources to a company in which members of the group are not working is now allowed to receive a return on its investment; this makes it possible for

companies to invest in other companies, and so permits some capital mobility. Also, it was formerly the case that retired workers could not benefit from their investment of labor in a company after they ceased to work for it, even though they may have sacrificed much of their wages to advance the goals of the organization, for example, in voting for automation. The Yugoslavs are now trying to develop means by which seniority can be rewarded, and this also constitutes a recognition of the right of an investor to receive a return, though admittedly the investment in this case is called an investment of "past labor" rather than "capital."

It has taken the Yugoslavs a long time to grant this amount of recognition to the role of capital. I believe that other countries can learn from the Yugoslav experience, if they are not bound by certain dogmatic socialist theories. They should adopt systems of social ownership which recognize the role of capital and allow for capital mobility. An example is the Peruvian system of self-management, which has set up a corporation (COFIDE) designed to raise funds for self-management enterprises; it distributes dividends to the investors, and thereby acts as a sort of investment bank for the self-managed enterprises.

Dysfunctional Managerial Behavior

Management is highly alienated, as my book shows. Managers are made responsible for the consequences of decisions over whose implementation they have little legal control. Theoretically the manager is supposed to be on the receiving end; he is expected to make suggestions, and let the workers make the decisions. If he takes the initiative in an aggressive fashion, he will probably be regarded as a potential dictator. As a result, professional management is both resentful and strongly inhibited from assuming active leadership; and in the long run both management and labor lose.

This dysfunctional behavior on the part of management, which I have discussed in the last two chapters of this book, can be attributed to the lack of balance between authority, responsibility, and rewards. As I argue in those chapters, the self-management organizational structure has not resolved that imbalance very well.

But this is not the only explanation. It seems to me now, after six years of additional observations, that the attitude of management is also a cause. When managers are autocratic in style and "Theory X" in attitude, they resent the restrictions which the democratic system imposes on them. To achieve a successful managerial process in self-management, one needs socially motivated and democratically oriented managers. It is imperative that

educational institutions for training managers be established in order to produce leaders for democratic managerial processes who are equipped with the attitudes and philosophies necessary for the effective operation of self-management. The "new man," the socially responsible, democratically oriented man, whose existence is a necessary condition for the eventual victory of self-management over hierarchy and alienation, cannot be created by governmental decree. Educational changes are necessary as well as economic and political changes. A system of social support, embracing art and cultural activities as well as education, will be necessary in order to change the expectations people have about themselves and about the system in which they live; such a program must complement and support the political and economic changes which self-management entails. Self-management aims at comprehensive change; and a process of comprehensive change must initiate the system and support it at every point.

Pluralistic Economic Growth

In Yugoslavia the generation of totally new enterprises has been limited; as a result, there has been a high level of unemployment and a large contingent of Yugoslav workers has left the country. This situation, I believe, will continue so long as individual entrepreneurship is restricted. Large private enterprises (beyond 10 employees) are forbidden; and potential entrepreneurs who might be willing to establish self-managed enterprises know that they will lose their managerial prerogatives as soon as self-management is introduced, an expectation which is not conducive to risk-taking. Established companies are discouraged from opening new branches: it is considered dysfunctional to allow companies to grow beyond a certain size because management then becomes too professionalized and too powerful. Companies which have grown too big are in fact split into several units.

The fact that it is feasible to establish self-management only in existing companies remains a serious disadvantage in the system. Any country that wishes to establish self-management should give serious thought to the problem of how to make the system self-generating.

Worker Alienation

Strikes are fairly prevalent. Self-management produces, among the people involved in it, high expectations for positively reinforcing experiences, and when these expectations are not met there is likely to be a high degree of resentment which may end in apathetic behavior or in a wildcat strike. The mere establishment of self-management is not enough to maintain a high level of

motivation among workers. It is not enough to change the organizational and legal structure; the process of decision-making must also be changed. The process must become participative, not because it is legally required to be so but because the professional management nourishes it and makes it work. It is crucially important to change the orientation of management, as I have stated above. Authoritarian, anti-democratic managers are capable of causing more problems in this system than in hierarchical systems because of the difference in workers' expectations. With self-management, the expectations of the workers change, and the attitude and practice of management must change as well, if pseudo-participation and totalitarianism masked as self-management are to be avoided.

Threat to the Party in Power

In Yugoslavia, economic decentralization has brought pressure on the Communist Party to decentralize. Decentralization in the economic sphere diffused itself into the political sphere. Increased political freedom can be dangerous for a country as deeply divided into nationalities as is Yugoslavia. The fear of civil war has been very real. Since 1972, the Communist Party has thought it necessary to discourage further decentralization and political democratization. This crackdown may have repercussions in the future for economic democratization. This experience may indicate that when self-management is established by an exclusive political party, it is likely to have a boomerang effect on the political structure: it may threaten the power of the party itself by putting pressure on the party to become pluralistic, and the party in power is not always able or willing to relax the reins of control.

As a result of all these problems presented above--unemployment, political divergence, economic centralization, management alienation, etc.--it is possible for self-management to produce widespread disillusion, as is now the case in Yugoslavia. This is very dangerous because such alienation may block future experiments in self-management. Democratization is a difficult and painful process; care must be taken that individuals are intrinsically as well as extrinsically rewarded for their participation in the system so that they will not reject it in the long run.

I am not sure that self-management in Yugoslavia will survive as it was originally conceived. Alienation with self-management may come to the surface when Tito is no longer in charge and when there is a leadership vacuum which enables new elements to provide new solutions to old problems; if so, the political and economic structures are likely to become more hierarchical, and the government may become strong enough to put an end to effective polyvalency.

But the developing nations should not be discouraged by this. Any innovation meets with difficulties. The values and institutions of the old order will always obstruct the implementation of change. England pioneered the industrial revolution only to be burdened with machinery which became obsolete and blocked further modernization; Yugoslavia, as a pioneer in self-management, may suffer the same fate. But the developing nations can use the Yugoslav experience as a stepping-stone in constructing their own experiments.

How to Establish It

What must be done in order to establish self-management? Is revolution necessary to bring about this state? It seems that in the developed countries there exist certain evolutionary trends toward self-management, mainly through democratization of the working place and profit sharing. On the other hand, Yugoslavia has demonstrated the revolutionary path of comprehensive change. It seems to me it is possible for both evolutionary and revolutionary processes to lead to self-management. However, a committed and powerful leadership will be necessary to protect the evolving process from the professional politicians who are entrenched in political power and threatened by self-management. A political party willing to promote its own obsolescence will be needed, and this will be difficult because parties are by their very nature geared to accumulate power. Another threat will come from enterprises which are mainly interested in short-run productivity and/or profit. I believe that in developing countries both government-run and capitalist enterprises will be more powerful and productive than self-managed enterprises in the short run, because they are more capable of coercing production maximization which eventually exploits human capital rather than providing long-term social interests. There is probably in the short run a certain amount of opportunity cost in terms of productivity and profitability for experimenting with self-management. But in the long run, once a certain level of capital formation is achieved, once people achieve a certain level of education and are capable of self-managing, the system will be able to compete more successfully with capitalist and centrally planned enterprises because it is more amenable to change, it is humanistic in nature, it retards centralization and it eases comprehensive social, political, and economic growth.

One of the questions I am most frequently asked on my lecture tours is the following: How can self-management be established in a developing country the majority of whose population is illiterate and unfamiliar with industrial work? Is not management a sophisticated and complex process which often proves too difficult for even educated people raised in an industrial society? It is

true that to introduce self-management in such a society sounds like putting the cart before the horse. Nevertheless, I believe that the procedure makes sense. The self-management system introduces a need for education. Workers must study in order to be able to manage. Education becomes a matter of immediate needs, and a positively reinforcing experience to those involved in it. Is it better to educate people and then deprive them of the chance to use their knowledge, as is often the case in centralized hierarchical systems? Once workers know that their education will affect the quality of their organizational results and subsequently their take-home pay, they will learn very fast. So my answer to the question posed above is this: the more backward the country, the greater is the need for organizational opportunities which enable people to rise out of their backwardness. I do see this much validity to the objection: it is probably true that in the short run an elitist group which is better educated will be more productive, and an organization run by such a group will be economically better off, than an organization which is in the process of educating itself. But the real purpose of self-management is to produce long term social and educational results, not short term economic results. Furthermore, I reject the view that illiteracy is necessarily a barrier to self-management. It is the elitist and snobbish attitude of management that prevents managers from teaching their workers. The exclusive economic orientation, and its accompanying elitism, produces a perception block which prevents the manager from functioning as an educator. Education, however, must become the main role of managers in developing nations if the scarcity of this resource is to be overcome.

What, then, is the role of professional management in self-management? How should it operate?

Professional Management in Self-Management

Self-management means democratic decision-making. The general membership makes policy decisions, and in order to implement these decisions it delegates tasks to the professional management. The professional managers or executives are elected by the membership and are directly responsible to their constituents. This subordination of management to the people for whom it manages has a wide range of consequences. One consequence, described elsewhere in this book, is the potential demoralization of management. Another possible consequence is disorientation of the workers and organizational disintegration. These results can follow from excessive demands on the part of the membership for control over its professional management.

The system of self-management has control mechanisms which are designed to discourage management from becoming entrenched in positions of power. It rotates its managers, requests them frequently to report their decisions, and rebuffs them for decisions which the general membership in its collective wisdom considers to be erroneous. If the organization is small in size, as is frequently the case, management finds it hard to hide its mistakes. The people who control management are the same people who implement its decisions. Thus there is enough information available so that the organization can react promptly if it disapproves of the decisions of management. Management's zone of maneuverability, the zone within which it can reach decisions without having constantly to justify them or continuously to secure agreement to them, is narrow. In a turbulent environment, the magnitude of a zone of maneuverability is highly significant. As the environment becomes increasingly turbulent and less predictable, goals become more comprehensive and diversified, and members of the community have a wider range of interests: under such conditions, the capacity of professional management to secure a common front can easily be overtaxed. Subjected to close scrutiny and direct control by a dissenting constituency, management can often become extremely demoralized.

A larger zone of maneuverability would enable management to design organizational strategies which the dissenting parties would accept. In a hierarchical organization, management is relatively free and can operate with far more discretion. The controlling group are often absentee owners, who become involved only in the case of major policy decisions. Furthermore, it is no secret that management frequently controls its board of directors.

In a self-managed system, where the management is given the responsibility of leadership but is permitted only a limited zone

of maneuverability to implement decisions, management tends either to become apathetic or to usurp powers from the elected bodies. This last strategy is followed in order to accumulate sufficient powers to protect professional management from the all too frequent intervention by the membership in decisions which it is difficult for management to justify clearly, and yet are necessary for the organization to operate.

The process of rotation which is supposed to protect the general membership from entrenchment and usurpation on the part of management has certain negative repercussions: the organization is deprived of continuous management, and thus is confronted with frequent policy changes and different styles of leadership. While the process of rotation can be a healthy one in a turbulent environment (by avoiding excessive reliance on one set of policies), it can also be disadvantageous if done just for the sake of exercising membership control over management. The rotation system means adding another form of turbulence to the environment with which the organization has to cope.

Another disadvantage lies in the managerial reward system. Once they are rotated, managers find it difficult to resume positions which entail less responsibility and less discretion in decision-making. They go through the "reentry blues" from a state of hyperactivity to a state in which they perceive themselves as being pushed to the organizational margins. Thus rotation can be highly demoralizing, and it probably does not encourage in the best human resources a willingness to undertake difficult managerial positions.

Professional management normally seeks some freedom of action, and for it to undertake a managerial function under these conditions becomes a matter of social duty, a sacrifice one has to make if the organization is to survive. Such a state of affairs does not necessarily bring the most achievement-oriented and aggressive people to these positions.

What, then, are the desirable characteristics and roles of managers in self-managed organizations?

The Role of Professional Management in Self-Managed Organizations

Managers as Leaders

A professional manager in a self-managed organization must be self-confident. He should not need power to reinforce his inner security. He should feel that he is doing his best and he should convince the community of his competence. He must be "other-directed" and be interested in the organization in a way that goes beyond

self-interest. His major aim in taking the managerial position should be to improve the organizational welfare. He must be willing to take the pressures that a leader experiences when his followers do not immediately see the benefits of a proposal. He must be willing to take the risk involved in suggesting courses of action where outcomes are uncertain, and he must be willing to communicate his ideas to the community so that a group decision emerges. His style of leadership must instill confidence in his constituents: they must feel not only that the manager is in control of the situation, but also that he adequately expresses and implements the desires and aspirations of the membership. If his behavior, role, and character do not fit this pattern, a credibility gap may result, and the organization may express its dissatisfaction in strikes or other disruptions, as I have described elsewhere in this book.

The manager of a self-managed organization must want to develop the organization as a group, to improve the dynamics of the group, and eventually to promote his own obsolescence. This he can do by constantly improving the managerial expertise of the general membership, and by improving the channels and mechanisms of decision-making so that the organization will be aware of its basic capabilities. If he will do this, the ever-present suspicion that the manager is usurping power at the expense of the membership and transgressing into their legal domain can be minimized. (This suspicion is always present because the manager handles information, and he is expected to be the first to react in case of crisis. Monopolization of information and the power to make independent decisions are frequently viewed as signs of usurpation of power.) It is doubtful that a manager will ever develop a community to the point at which he becomes dispensable; but this must be his goal. This is the hardest of pressures to stimulate and nourish in a manager, but it is a necessary condition for the successful operation of the organization and for the survival of the manager.

Managers with the character and orientation described above are rare because they are a cross between the intellectual and the pragmatist, the staff man and the line man; they are leaders in the true sense of the word. Our understanding of what makes people leaders, either natural or trained, is in its infancy, and the scarcity of natural leaders may prove to be one of the bottleneck problems that the system of self-management faces.

The Manager as Entrepreneur

Related to the desired characteristics of managers as leaders is the need for them to be entrepreneurs as well. Entrepreneurship is defined in this context as the willingness to undertake risk via

the identification and exploitation of opportunities. Leadership in this context means communicating this opportunity and its risks to the community and leading the community to identify with the courses of action suggested. Entrepreneurship is the willingness to undertake risk; leadership is the capacity to mobilize followers in a cause, inspiring the followers to identify with and accept the opportunity and the risk that the leader chooses.

An entrepreneur is not always a leader. If he is not, then he will be able to identify opportunities and to undertake risk, but he will be incapable of mobilizing the community to accept those risks. An organization managed by an entrepreneur who is not a leader may advance economically, but the general membership will not necessarily see these results as their own, and will look upon the professional management as having usurped powers and negated the principle of the membership's right to determine its own destiny. In time of crisis, this credibility gap will cause the members to confront and challenge the management.

In the opposite case, in which a self-managed organization is staffed by a director who is a leader but not an entrepreneur, he may mobilize the organization only for conservative and relatively safe endeavors. In time, in a changing environment, the organization may become economically stagnant; and if no results are produced, there may be a confrontation of another sort with the members of the organization and the management will be replaced because it has failed to produce the desired economic results. What a self-managed organization needs is entrepreneuring leadership. A hierarchical enterprise needs this quality as well, but it is not so crucial for its survival as in the case of the self-managed organization. In order to secure both leadership and entrepreneurship, it is necessary to do more than hire the right people with the right personality traits. The organization has to be structured so as to satisfy both leadership and entrepreneurship needs.

It seems to me that the self-management system is capable of satisfying leadership needs, but it apparently does not satisfy the needs of entrepreneurs. Group pressures for conformity do not encourage that individual creativity which is one of the major contributors to entrepreneurial spirit. At the end of the process, when the group approves an action, it may have gone through numerous alterations and criticisms; the final product may be one with which no one individual identifies, and the entrepreneur may find himself no longer able to support the action. Entrepreneurs must identify with an activity in order to be willing to take the risk that the activity calls for. If the process is a prolonged one, people who have entrepreneurial tendencies may "drop out" and try to satisfy their needs outside the system. Such an outcome deprives the self-managed organization of a very potent driving force which is necessary for its economic survival.

The Manager as an Administrator

In addition to the staffing problem of finding the right people for demanding jobs, there is the problem of the allocation of managerial prerogatives. In hierarchical organizations, because there is no legal distinction between policy making and administration, there is no difficulty in distinguishing the domain of the managerial group from that of the general membership. In self-management, the whole membership is supposed to make policy decisions--those decisions that are most crucial to their existence. Management should provide information and leadership in making those decisions, but it is supposed to be unobtrusive and not to force issues. Once those policy decisions are made, management is supposed to have sufficient discretion in administrative decisions to implement the policy decisions.

In reality, the distinction between policy decisions and administrative decisions is not an easy one to make. There are overlapping areas, and control over administrative decisions may amount cumulatively to control over policy decisions. It takes a highly benevolent and enlightened manager to make this distinction workable. In other words, a manager, because he is the one closest to the information, can manipulate the finding of information and the character of its presentation and thus control policy decisions. No legal definition, no matter how clearly stated, on how decisions should be made can help to make this distinction operative.

So we see that there is a dysfunctional ambiguity that blurs the necessary distinction between policy decisions and administration, which is indispensable to self-management. This ambiguity accentuates even more strongly how difficult it is for management to function in a self-managed organization.

The Manager as a Strategist: Subsystem Integration and Organizational Efficiency

I have defined a self-managed organization as one whose goals are social as well as economic. Social goals are not merely means toward economic results as in hierarchical organizations. This distinction is significant because a self-managed organization pursues social goals for the purpose of achieving them, without necessarily having to justify them in economic terms.

In Israel the kibbutz performs a social task by absorbing immigration. It provides the top Israeli military command and political leadership. Thus the kibbutz tries to achieve broader goals than the maximization of economic results. But how much social involvement can or should it afford? Social goals are hard

to quantify, and lack of quantification makes justification relatively difficult. This inability to quantify goals makes it difficult for managers to design strategies, and difficult for leadership to secure cooperation for such strategies.

The Importance of Professional Management for the Success and Survival of Self-Management

From the above analyses it should become increasingly clear that the characteristics and behavior of management are important for the survival of self-management. If management, as a group, has no entrepreneurial spirit, no leadership traits, and no managerial capacity to design congruent strategies for comprehensive goals, the organization will find itself afflicted not only with failing economic results but also with a social atmosphere too depressing to be endured.

In Yugoslavia, management as a group is constantly under attack, first for ideological reasons and more recently for political reasons. The most important factor for making self-management workable is approached in the most negative manner. There are hardly any business schools to train managers; there is hardly any social reward or recognition for their task; they are considered to be remnants of capitalism, a class that has entrenched itself in undeserved power positions, and they are suspected of being anti-self-management as a group.

Recognizing the specific role of managers, training them for that purpose, rewarding them for adequate action and orientation, is crucially important for the success of self-management. The more we desire self-management to succeed, the more necessary it is to provide enlightened professional managers.

The Managerial Advantages of Self-Management

I have presented above some of the managerial problems important for the survival of a self-managed organization in a competitive environment. However, there are some managerial advantages as well: the capability of professional management to implement change; the relative freedom of management to devote time to training and leading as an on-going activity; and the relative ease with which management absorbs information.

The Manager and Change

One of the major difficulties of management in a hierarchical corporate structure is the inducing and implementation of change. The fear that each individual has of change and its repercussions

leads him to entrench himself in his position. In Yugoslavia, change is a way of life. Even the Yugoslav Communist ideology (1958 Congress of the Communist League) says: "Nothing that has been created must be so sacred for us that it cannot be surpassed and cede its place to what is still more progressive, more free, and more human."

In Yugoslavia, organizations are constantly in process of adaptation. Salaries are changed, departments removed, new technologies introduced, new labor policies legislated internally, etc. Such rapid change is permitted by an organizational structure that offers to each individual economic security and the psychological security of participation.

Once management suggests a decision which involves major change, the whole membership becomes involved in studying the prudence of the suggestion and its repercussions. Through this process management obtains a body of knowledge about the constraints of its original proposal which in a hierarchical organization would usually require a gathering of consultants and a big budget, or be discovered only later on after the project has been initiated and has encountered difficulties in implementation. Furthermore, once a decision to change is made in self-management, the necessary adaptations and consequent alterations in the original proposal are made in the process of implementation, with hardly any management intervention. The general membership "carries the ball" itself through appointment of committees, voluntary undertaking of tasks, etc.

It is interesting to note the difference between hierarchical organizations and self-managed organizations in regard to organizational change. In self-management it is relatively difficult to induce change. The process of identifying what should change, of incorporating various suggestions made by the general membership, etc., is a prolonged process and, for management, an emotionally exhausting one. However, once the membership accepts an idea, swift implementation follows and management is relatively free from the anguish of controlling and forcing implementation. In an enterprise it has been my experience that the opposite phenomenon occurs. Defining what the change should be is a relatively swift process. The difficulty lies in implementation and in overcoming resistance to change.

A manager in a self-managed organization serves a catalytic function: he assists, guides, and leads the membership toward making certain decisions, and when the decision is made, his role diminishes to one of providing information about the rate of advancement and about the unexpected difficulties encountered. Ideally, his role is primarily an educational one.

The Manager as a Teacher

A manager in a self-managed organization is thus more of a teacher and a guide than a policeman. The component of directing and motivating is larger than the component of disciplining and controlling. Self-management encourages self-control and self-discipline. For instance, in a Yugoslav factory which I observed in my studies, a young foreman whom I selected at random to watch walked through a plant during his shift. No one rose when he appeared. No one sped up his activities. No one tried to look busy. Some plainly ignored him and continued sitting on benches doing nothing. When I asked why it was they did not at least appear to work hard when he looked in their direction, he said, "They control themselves. I cannot discipline them. If a worker really loafes, his colleagues will turn him in to the disciplinary committee. Only last week they themselves decided to fire one of the group, since he came too late to work." Since the group shares the results of its work, anyone who does not contribute as expected affects the income of others. So the system itself induces group self-discipline and control, and thus frees management to deal with formulating strategy for the community to approve, with securing maximum support for courses of action, with promoting motivation and preserving the processes of democratic decision-making. In other words, it is the task of management to exercise the main part of leadership and entrepreneurship, rather than administration and implementation. This division of responsibility should lead to more effective operation and accelerated personal and organizational growth.

Availability of Information

A final point, but not the least important: the system fosters openness. Since all workers participate, there is little opportunity for an individual to monopolize information and impart bias to it. Open and sincere discussions take place, and management is offered insights into the repercussions of the decisions it suggests before those decisions are implemented. This saves management the expenses and uncalled-for aggravations which are usually generated by difficulties which surface after a decision is made and which could have been anticipated if people were more open and willing to present their information, instead of monopolizing it as a source of power. A manager as a leader, a teacher who witnesses the personal growth of the members of the organization, gets unique satisfaction from self-management. He has a genuine opportunity to exercise leadership, to identify the needs of the organization, and then to design a strategy that can mobilize the membership and at the same time forward its economic interests. Although this opportunity exists in enterprises as well, the need for leadership traits is

neither so pronounced nor so crucial as in self-management. Self-management needs professional management. To assume that self-management needs no professional management is to assume that democracy needs no formal leadership. However, the role and orientation of the professional management should be different from its role in hierarchical operations. Managers should be of the "Theory Y" type; they should have more need to associate than to exercise power; they should be personally secure so that they will have no need to find their security through the power they exercise in an organization. They have to be professional in the true sense of the word: they must provide services to the community they work with and for.

Summary

Self-management offers a promise. It is a new system that tries to combine the advantages of the statist and market systems. Because it is new, the implementation of the system presents many problems. I have attempted to describe the experience of self-management so that these difficulties can be clarified and more easily resolved. It seems to me that much more practical experimentation and theoretical study will be required before we fully understand what a complete model of a self-managed economy must be. I hope this book has contributed to that endeavor.