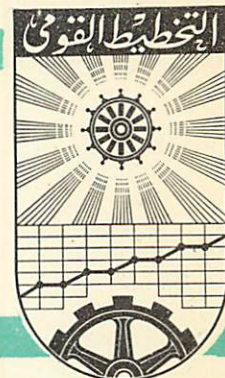


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Management in Socialist Industry
and Enterprises

Part I

Economic Basis and Main Features
of Socialist Management

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0. Introduction

Managerial activity in industry and enterprises has been developed as an immediate condition of social division of labour and large-scale production. The main task for managing the individual enterprises as well as the whole industry-under socialist conditions of production-is, therefore, to coordinate social production process based on a social division of labour.

The direction of production and reproduction process represents an absolutely necessary prerequisite for a continuous and economic production. This demands that managerial activity and structure of management have to correspond to these main tasks of direction of production.

Before speaking, however, about the system of managing the industry and enterprises, we have to explain the main functions of coordinating the production process in more detail. It is not just a simple coordination that is required. We have rather to guarantee an absolute conformity in the discharge of duties which are directed at realizing the uniform object. Managing in socialist industry aims, therefore, at including all the individual workers as well as the working teams in this process of managing. That means, it is one of the important duties in managing socialist industry to enable working people to develop their creative faculties and talents in connection with and in favour of a rationalized organization of production process. Such arrangements have to be made that will stimulate the motive power of workers in order to achieve an economic thinking based on the harmony of social and individual interests. In this direction, socialist managing differs mainly from management under capitalist relations of production.

Moreover, the management of socialist industry is quite different from the management of capitalist enterprises as socialist leading is directed at making all levels and aspects of national economy the subject of conscious social activity.

These uniform and different tasks of capitalist and socialist managing have always to be kept in mind when reading the further explanations on management of industry and enterprises.

1. Economic basis of socialist management in industry and enterprises.

The system of management depends, as mentioned above, on the organisation of production and reproduction process in industry and on the relations of production given. These relations of production result, in turn, in a special position of industrial units, i.e., enterprises, associations etc., within the national economy. This position determines decisively the tasks, organisation and structure of industrial management.

If, therefore, anybody wants to analyse a special system of industrial management, he will be forced to study the relations of production or ownership and economic ^{the} position of the respective industrial units.

What's to say about the economic position of public enterprises and associations or organizations of public enterprises within national economy?

1.1 Economic position of public industrial enterprises

A public enterprise as an industrial unit, self-sustained in the field of production technique and economy, must be characterized by a high degree of authority on its own . That means, all the workers and the managerial personnel of an enterprise are responsible for supplying a large volume of products at low cost according to the needs of national economy. These products are expected to correspond to or to determine the world top level in the scientific-technical field. This aspect of managerial activity is based on information about home and foreign trade, scientific-technical development, activity of competitors, etc. These informations have to be collected in close collaboration between enterprise, association or organizations of publicly-owned enterprises, and organs of home and foreign trade.

For carrying through the production process according to the tasks mentioned, the enterprise has to dispose of its own material and financial funds. These funds form the basis for its economic activity and they are used on its own authority within the scope of the plan. The respective members of the managerial personnel as representatives of the enterprises and, there-by, the enterprises as a juridical person, are legally and economically fully responsible for their activity.

The enterprise itself is responsible for the sale of its products and for the supply with material, equipment, etc., by means of commercial contracts.

In this field, the central direction by the state is limited to the delivery of relatively few and usually rather condensed figures derived from the national economic plan. The central figures concern, for example, the production volume of a few important products, the volume of commodity production, production cost and returns as well as investments and state-directed activity with-in the field of scientific and technological development.

It should be noted, however, that the degree of authority, the individual industrial enterprises dispose of, depends not only on the independence in the directive system. Above all, two other aspects are of importance for making independent decisions. These are:

- a) the effectiveness of economic stimuli that induce activity of the enterprise, and the relations between these stimuli and the plan,
- b) the problems with regard to investments.

Ad a) Central authorities, for example, have to take into consideration that fixed prices which do not correspond to the amount of socially necessary labour expended will have positive or negative effects on the assortment and volume of products provided by the national economy. If so, it will sometimes be necessary to counter such negative impulses by central instructions. This, however, can rapidly result in a state of affairs in which the scope of decisions that can usually be taken by the enterprise is going to be limited.

Ad b) The second aspect concerns the effective degree of the enterprises own authority as for the supply of means of production in ratio to the demand, i.e., for certain materials and equipments. The right, for example, to decide independently on investments will become a farce if the equipment needed cannot be bought on the market. It depends on the whole system of managing the national economy what degree of independence the individual enterprise will have in this field. In any case, it has to be avoided that the handing over of rights to an individual enterprise will practically be cancelled from one day to the next according to the economic situation.

Moreover, the individual enterprise represents the main link in the comprehensive system of managing socialist national economy.

According to the principle that every question has to be decided where this can be done expertly and to the best benefit of national economy, the individual plant bears high economic and legal responsibility. The pyramidal set-up of state authorities ensures, on the other hand, that the economically decisive problems are centrally determined. These are problems and questions that decide structure and development of national economy as, for example:

- the distribution of investments for expanded reproduction,
- the direction of large investment projects,
- the main features of scientific and technological development,
- the development, i.e., training and distribution of manpower, etc.

Decisions on these questions have to be based on strict definition and careful evaluation of the interests of the national economy as a whole. All the other problems, that means, the entire managing system of socialist industry as to current affairs and to the implementation of these tasks, is based on a high degree of economic independence of the individual enterprise.

But, both the position of an enterprise within national economy and the administrative mechanism of industry are not only determined by relations

between enterprises and superior authorities. They are, simultaneously, determined by the character of relations between individual enterprises and other institutions.

There are, in general, two kinds of relations:

1. the correlations between supplier and consumer of products and services,
2. relations between enterprises belonging to the same industrial branch.

The correlations between supplier and consumer of products and services are to be carried through- to ^agrowing extent- on a commercial basis. That's to say that state authorities make use of the conditions of commodity production so as to organize the reproduction process with a minimum of immediate state intervention, because commercial relations between enterprises are aiming at tackling jointly the economic tasks.

The system of collaboration is supported and coordinated by central state instructions. The balance of demand and supply shows, for instance, possible disproportions. They can be straightened out by means of investments, or if needed, by foreign trade organized by public companies. In this direction, correlations between public or socialist enterprises differs distinctly from those between capitalist enterprises.

Correlations between enterprises belonging to the same branch and producing similar or related products are going to become more and more importance in view of the technical revolution. In many cases, a speedy introduction of new technique depends on the close cooperation in tackling technical preparations, on an efficient concentration and specialization of production upon certain types of products, semi-products or components.

This represents an other expression so as to prove the necessary implementation of the production principle. Consequent direction according to the production principle will be achieved by combining the major public enterprises of a certain industrial branch in an association or organization of nationally-owned enterprises. As it renders impossible for any association or organization to lead directly all the separate and often widely

dispersed enterprises producing the same or related goods, cooperation of these enterprises is organized by means of producer groups.¹⁾

1.2. Economic position of associations of nationally-owned enterprises

In the past, the economic position of associations was subjected to many changes. These changes were and are brought about by the development of national economy, by the improved qualification of managerial personnel, and, last not least, by the requirements of the effective introduction of new technique into production. The process of establishing associations or other forms of organizations of industrial enterprises reflects, therefore, an objectively existing trend in the development of managements, i.e., this holds true under capitalist and under socialist relations of production as well. Generally speaking, associations of public factories in this direction are partly comparable with capitalist concerns.

The partial conformity as to the form, however, doesn't express anything about the economic position and the contents of the management by means of associations or organizations. In recent years, the associations of enterprises in the GDR, e.g., represented more or less administrative organs working on behalf of the National Economic Council. The respective departments of the associations distributed targets set by the National Economic Council and collected the requirements of the enterprises. The expenditure of the associations was paid by the state budget. In general, the associations had been without responsibility for the activity of administratively subordinated enterprises although some instructions were given by them.

On the other hand, the development of science and technology forces us to lead the production process not only from the view point of one enterprise but from this of the whole branch. Thus, the redefinition of the economic position of associations became necessary.

The new economic position of associations has been drafted in connection with the new economic system of planning and managing the national economy. It is characterized as follows:

1) c.f. Memo. No. 495 of the JNP, Chapter 2.1

- The association of nationally-owned enterprises represents the authority responsible for the whole reproduction process of the subordinated enterprises.
- The association is conducted according to the principle of economic self-support (economic accountancy) and disposes of own funds (material and financial funds).
- The association leads the scientific and technological development of the whole branch and determines, e.g. the introduction of newly developed products and technologies into production. Scientific-technical institutes for research and development are affiliated to the association.
- The association has to balance the plan-proposals of the single enterprises and is charged with elaborating a plan concerning the whole branch. Supply with and demand for products and materials have to be balanced within this plan-proposal of the association.
- The association takes the lead in shouldering the responsibility for fulfilling all the planned targets of enterprises, that means, as to production as well as returns; for the expenditures of the association are to be financed by the returns of subordinated enterprises, it is materially interested in supporting them.
- The association is charged with distributing those financial means between subordinated enterprises remaining after having fulfilled the state targets set.
- The association forms the centre and leading organ of the branch for socialist competition, exchange of scientific and technological experiences, and socialist teamwork.
- The association leads the subordinated enterprises by means of producer groups comprising all kinds of enterprises connected with the production of the branch.

In summarizing the main features of the new economic position, we are able to state that the associations represent a new type of industrial

management. Their economic position corresponds to the mentioned new tasks arising. As experiences show, the associations are able to meet the requirements very successfully. This can be proved by the following examples.

- a) By establishing producer groups, the assortment of production has been brought in line with the productive capacity given. That means, the production programs of the single enterprises have been redistributed in such a way that those enterprises got the tasks which are able to produce the products at the highest quality and at lowest cost. In connection with the redistribution, assortments of products have been analysed and technically improved. (standardization of products and components.)
- b) Another preference of newly established associations is marked by the concentration of research and development. In doing so, it renders possible to shorten the time necessary for developing and introducing newly developed products and technologies into production. We are able, therefore, largely to avoid the introduction of technically out-dated products and technologies.
- c) The distribution of financial means and materials is decisely influenced by the association. Since ^{ever} ~~against~~ former times the association is fully responsible for the efficiency, investments are granted only if the efficiency, has been calculated in advance. Thus, enterprises will get investments when proving this efficiency for the branch or the national economy. In result of this, higher returns per unit of capital invested have been reached.

This shows very obviously that the new economic position of associations of nationally-owned enterprises within our managerial hierarchy of industry enables us to increase labour productive, production, and returns for the benefit of the national economy as a whole.

2. Main features of socialist management

2.1. Management by instructions and economic incentives.

Management by instructions and economic incentives is closely connected with the new economic system of planning and managing in the GDR.

It would be quite wrong, of course, to suppose that in the past years economic activity of people in enterprises had been triggered off only by instructions coming from the superior authorities. In the past period, economic activity was determined by instructions handed out from various directive authorities, on the one hand, and by individual or collective interests, on the other. A wide range of personal activity within the scope of instructions has already existed though there was a relatively stronger trend towards administration, towards direction by instruction, which was connected with a large expenditure of paper. Such a system is not always suitable to develop economic and material responsibility at the various managerial level. In order to avoid excessive administration, it is necessary to use objectively existing economic laws and their requirements in such a way that helps to understand every individual worker and every working team to what extent their efforts contributes to the national economy. Furthermore, it has to be ensured that the interests of collectives and workers coincide with the interest of national economy.

In the ideal circumstances, i.e., when prospective processes have been correctly evaluated and when economic reserve funds are sufficient enough to compensate small fluctuations and deviations from the original plan, state direction can be limited to the state-plan and effective utilization of the economic levers. If the two systems of economic levers are used properly, only a very minimum of immediate central direction on details is needed.

There are, however, certain provisions to be made for such an ideally working system of managing. This holds true, especially, with regard to economic incentives and levers, i.e., price, wage, returns etc. The system of managing has to allow exact evaluation of the efficiency of managerial activity at all levels, while managerial personnel at all levels bear full responsibility for their activity. This responsibility has to be defined in such a way that there is no possibility for shifting the blame for deficiencies from one person to another. The solution of this problem requires some changes of organization in the system of planning and managing the national economy. This shall be illustrated by an example.

It was quite a job in the past years to find out who was responsible when deficiencies occurred concerning the supply of goods for the home market. The industry shifted responsibility to the trade organization, the trade organization, on the other hand, did their best to make industry the scapegoat. As the responsibility of industrial enterprises and associations for the sale of their products was limited, this tendency was actually promoted.

In order to change this situation, it was necessary to redefine the responsibility of enterprises and associations for the sale of their products and for the production of saleable goods by means of legal instructions and application of economic levers. For example, such figures of production plan as commodity or market production and sale have become more importance than gross production. Granting of bonuses for managers charged with sale and marketing has been bound with the sale of products reached. Simultaneously, relations between trading organizations and industrial enterprises have been put on a commercial basis.

This example may serve to point out that the effective utilization of economic categories of commodity production and the changes in the activity of state authorities, i.e., the accelerated transition to lead by economic means, makes it imperative to delegate complete, but strictly defined, responsibility to individual enterprises and their directorats, the associations, and to central state authorities. By applying such economic levers, mentioned above, enterprises and association have been forced to establish and to ensure the consistency of market investigation or investigation of demands, research and development of new products and technologies, production, and the sale of their products. Both the economic and legal responsibility of enterprises and associations have to be bound with this new kind of economic activity in socialist economy.

These regulations and the new principles of price policy form the basis for an increasing significance of such an economic lever as returns. Nowadays, returns are one of the essential criteria of economic activity in socialist industry. This serves to establish and to improve a correct combination between economic activity of enterprises and associations and

state regulations for securing the interests of national economy as a whole. On the other hand, by means of a efficient use of returns by state authorities, i.e., to bind the granting of returns with reaching the aims of national economy, for instance, detailed direction by central state authorities can be replaced.

The ratio of immediate direction by central state authorities to the utilization of economic stimuli, i.e., direction by economic levers, is not only important for the relations between central state authorities and industrial enterprises. This ratio is also of extraordinary significance for the organization of management within the enterprises themselves. In a number of major industrial enterprises we have already attained a correct evaluation of the importance-- of seperate departments. Their activity can be improved again by handing over to them responsibility for planned cost and the figures of economic efficiency. You will notice that this process bears, although on a quite different economic basis, some analogy to the internal management of capitalist enterprises and trusts. This serves, however, under socialist relations of production, to reach an increasing consistency of the working people with the interests of the enterprise and national economy.

2.2. The problems of centralized and decentralized decision-making in management

It has already been stressed the principle that every question has to be decided where the decision can expertly and correctly be taken. This means practically that subordinated managerial levels must have a maximum of scope so as to develop their own initiative within the rough aims set by the respective superordinated authority. Actually, the degree of decentralization in decision-making depends, for the individual managerial level and the whole organization of management, on quite a number of objective and subjective factors.

As a matter of fact, it is necessary to react centrally when disproportions and deficiencies occur in one economic sphere or the other. Such decisions are expected to secure that, for example, such goods or other elements of production process (materials, machines), for which exist an urgent

demand, are directed to those enterprises and branches where they are most urgently required, according to the needs of the national economy. This holds true at present in other countries with regard to the employment of labour. Labour is very scarce, for instance, in our country. In consequence of this, central state authorities have to pay careful attention to the distribution of labour regionally and with respect to the various economic and non-economic branches.

In other countries, certain elements of disturbances may result due to a insufficient stability of the foreign market. This influences the relation between centralized and decentralized decision-making, too.

These examples should be noted only in order to show that objectively existing facts have to be taken into account when the level for decision-making is to be considered. If the level of decision-making is incorrectly defined and determined within the managerial hierarchy, the result will be that there are no responsibility and correct solution for the respective problems.

Besides such objectively existing factors, there are, of course, subjective factors, too. They affect the extent to which authority for decision-making is delegated from one level to another. That means, e.g., the capability of a director heading the respective department has also to be considered. There is no reason for too many scruples about delegation of decision-making if the subordinated managers are well-skilled and supported by superior authorities. Nothing will be more derogatory to the whole managerial system than the existence of a director who principally looks up-on all subordinated heads of departments as failures.

The consequent decentralization of directive authority presupposes that heads of departments at a lower level are at the same time materially and morally interested in solving the problems and tasks correctly. Directing by economic means and levers becomes an increasing significance. Thus, it exists an inescapable need for making salaries and income of the heads of departments in enterprises, of enterprises and at other managerial level dependent on the efficiency of their own activity.

2.3. Methods of socialist management

As mentioned in the introduction of this memo, the main differences between capitalist and socialist management exist in the mode to practice management. Direction of socialist industry means primarily leading of collective groups of people. Thus, successful socialist managing requires to understand the following problems:

- a- Which are the motive powers that inspire an extraordinary performance and creative activity of working people?
- b- Which are the laws determining the formation and development of collective groups in production process?
- c- What forms the subjective position of a leader of collective groups, and what subjective abilities are required of him?
- d- What are the criteria for the quality of leadership that we expect from a socialist manager?

These questions can only be answered if we proceed from the requirements and conditions of the socialist relations of production. They result in the equality of interests and social position of the director, single worker, and working teams. Socialist relations of production necessitate and facilitate as well comprehensive participation of working people in management of enterprises and industry. This participation is expressed, for example, in the position of the social organizations of working people, i.e., trade unions; in the work of such special bodies like the production committee existing in our country in major plants. These committee contribute to and participate in solving these problems concerning the entire industrial enterprise.

This shows that the system of participating in management is widely varied. It represents itself, furthermore, in such forms as socialist competition, as meetings dealing with problems of production, etc.

Moreover, the new relations of production are reflected in the powers that motivate the actions of working people. Such motives are:

- personal consistency, on principle, with the objectives of the enterprise and national economy,
- material interest in the results of the work expressed in wages being paid according to the efficiency;
- the struggle to relieve the strain of work;
- the endeavours to achieve higher productivity and, therefore, the interest in implementing new technique into production;
- the ambitions of working people to discover something that is new;
- the pride of working people in the results of their individual or collective activity;
- the ambition to be appreciated by and among the collective group;
- the example of the leader and the atmosphere in the collective group.

To make these factors fully effective, two things are required:

1. Consideration of the laws that govern both the formation and the development of teams and
2. proper leading activity by the socialist managers.

The manager is responsible for establishing uniform aims and for developing a correct prospective within the scope of the department he leads. He has to develop his own ideas on these problems and to prepare suggestions, firstly, for consultating his collective group and, secondly, over against his superordinated authority. Furthermore, he has to coordinate and to advise the efforts of the team. In doing so, he has to secure a sufficient flow of information necessary for himself and the activity of the members of the team. Furthermore, the activity of a socialist leader is considered to be a personal example in different fields like reliability, loving order, theoretical training, etc. In this way, he will encourage the development of positive standards, habits, and traditions in the life of the directed group of working people.

The authority of the socialist manager has, therefore, both an objective and subjective aspect.

The objective aspect of his authority results from the fact that leadership forms a function of collective work. Social large-scale production as existing in industry enforces one-man direction. The objective aspect of the authority of a leader is further supplemented by the fact that he has been commissioned by the socialist state. Thus, the leader has become a representative of the socialist state.

The subjective aspect of the leader's authority is formed by his ability and his performance. He has to realize the objective aspect and authority in his daily routine work. He himself has to endeavour to be voluntarily acknowledged as authority. Hence it follows, this subjective aspect represents a demand that has to be met if the leader wants to be successful .

Leadership in socialist economy is not based upon ownership or title. A manager, therefore, can acquire and consolidate his position only if his activity earns him full respect of the teams he leads. The success of a leader depends on his ability to use his positive qualities in practical managerial activity. These qualities must be consequence and persistency in his work, in preparing and taking decisions, high professional qualification corresponding to the scope and sphere of his activity, genuine mutual confidence in his relation to people working with him, far-sightedness, and equability in his personal decisions, etc.

Practical managerial activity, in turn, has to be based on collective consultations. It must be distinguished by respect for the personality of every team member and confidence in the whole team. Furthermore, it must be distinguished by a clear definition of the duties and high demands on their fulfilment by the individual worker and the team as well.

The reader will have noticed that there is a certain similarity to scientific conceptions of so-called "Human Relations" spread in many capitalist countries. But, at the same time it could be noted the differences between "Human Relations" and socialist managerial activity. In

socialist countries, we are concerned with making fully effective the objective and genuine consistency between working people and leader. We are not forced to reach a harmony of working people and leader by using, above all, psychological means which is the essential consequence of this theory of "Human Relations". This doesn't mean, however, to neglect scientific results of research in the field of "Human Relations" in socialist leadership. On the contrary, the results of scientific activity as to social organization of working people in socialist and capitalist countries are ^{to be} thoroughly studied for making them effective on the basis of socialist relations of production.