

The Evolution of the Management Class

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I. Foreword

In this paper I will write about the evolution of the management class. First, in order to place this paper in its proper perspective, it is necessary to consider what management is.

The nation's progress depends upon its capacity to organize human activity. Organization is necessary to create a state, to build an army, to propagate ideologies and religions, and to carry forward economic growth. The essence of organization is the coordinated efforts of many persons toward common objectives¹⁾. At the same time, the structure of organization is almost inevitably a hierarchy of superiors and subordinates in which the higher levels exercise authority over the lower levels. The successful leaders of organizations, are in any society a small, but aggressive minority.

All organizations must be managed, and the role of management is naturally related to the objective of the organization. In brief terms, management is the hierarchy of individuals who perform specified critical functions in the organization. Management thus connotes both people and tasks. In analyzing management, therefore, it is necessary to define both its function and its membership.

II Evolution of Management Function

It seems most useful to categorize the functions which must be performed

1) Herbert A. Simon, *Administrative Behavior*, The Macmillan Company, New York, 1945, p. 17.

by the present day industrial enterprise(private or public) as follows:

1. The undertaking of risk and handling of uncertainty.
2. planning and innovation
3. Coordination, administration, and control
4. Routine supervision²⁾.

In very primitive enterprises, all these functions or activities may be performed by a single person, the proprietor. In larger establishments there may be a division of functions among a complex hierarchy of individuals. Ownership may be separated from management, and management itself may be divided into top, middle, and first-line supervisory management and into line and staff management. Obviously, the larger organization requires more managerial officers than the small or medium size firm. The hierarchy or organization may be quite simple or very complex depending upon the nature of the business activity, the size of the firm, and the technology³⁾.

The first two functions particularly involve entrepreneurship. In considering the role of entrepreneurship in economic development, economists traditionally have stressed three functions:

1. The bearing of risk and uncertainty
2. Innovation, and
3. The organization and management of a business enterprise.

Joseph A. Schumpeter argued that innovation is the primary function of entrepreneurship, and that one is an entrepreneur only when he carries out new combinations of factors of production and distribution⁴⁾.

To the classical economist Adam Smith, the entrepreneur was a proprietary capitalist—a supplier of capital and at the same time a manager who intervenes between the laborer and the consumer—whereas Alfred Marshall assigned to the entrepreneur all three functions: risk-bearing, innovation, and management. More explicitly, Marshall described the functions of entrepreneurs as follows:⁵⁾

The task of directing production so that a given effort may be most effective in supplying human wants is so difficult under the complex conditions of modern life, that it has to be broken up and given into the hands of a specialized body of employers, or to use a more general

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- 2) Frederick Harbison, and Charles A. Myers, *Management in the Industrial World*, McGraw-Hill, New York, 1959, p. 8.
 - 3) For a fuller discussion, see Frederick Harbison, "Entrepreneurial Organization as Factor in Economic Development", *The Quarterly Journal of Economics*, Vol. 70, pp. 364-379, August, 1956.
 - 4) Joseph A. Schumpeter, *The Theory of Economic Development*, Harvard University Press, Cambridge, 1951, pp. 66ff.
 - 5) Alfred Marshall, *Principles of Economics*, 1st ed, Macmillan & Co. Ltd., London, 1890, Vol. 1, pp. 354-355.

term, of businessmen; who "adventure" or "undertake" its risks; who bring together the capital and the labour required for the work; who arrange or 'engineer' its general plan, and who superintend its minor details.

Marshall's concept is probably the most realistic in explaining the activities of present day complex business enterprises. It goes beyond Adam Smith's conception of the entrepreneur in that it views his function not only as that of a trader who reworks resources before passing them on, but also as that of an organizer and manager with significant choices between economic alternatives. Yet Marshall's concept still has two principal weaknesses for our purposes. Its assumption, made for purposes of abstraction, that the qualities of entrepreneurship are found in one person can apply in reality only to the very small firm. In most enterprises, a hierarchy of individuals is required to perform entrepreneurial functions.

In our brief review of leading economists, we cannot attempt any exhaustive analysis of the views held by different writers on management, but it is necessary to mention a few of them in order to point up the contrast. Frederick Winslow Taylor, the "father of scientific management", was primarily concerned with the imperfections from which the economist tends to abstract, particularly the haphazard way in which areas of responsibility were delineated and work "norms" were adopted. In January 25, 1912, he said, "This change in the mental attitude of both sides toward the 'surplus' is only apart of the great mental revolution which occurs under scientific management." (I will later point out other elements of this mental revolution.) There is, however, one more change in viewpoint which is absolutely essential to the existence of scientific management. Both management and workmen must recognize as essential the substitution of exact scientific investigation and knowledge for the old individual judgment or opinion, either of the workman or the boss, in all matters relating to the work done in the establishment. And this applies both as to the methods to be employed in doing the work and the time in which each job should be done."⁶

Taylor proposed to do this by making management a science, resting upon "well organized, clearly defined, and fixed principles instead of depending upon more or less hazy ideas received from a limited observation of the few organizations with which the individual may have come in contact."⁷ But Taylor's applications of these fixed principles was limited almost entirely to the problem of efficient direction and utilization of the work force within the shop⁸.

Taylor's work led to new formulations of the function of management.

6) "Taylor's Testimony before the Special House Committee", reprinted in Frederick Winslow Taylor's *Scientific Management*, Harper & Brothers, New York, 1947, p.31.

7) Taylor, "Shop Management", printed in *Scientific Management*, p. 63.

Significant in this area was the growth of personnel management, the art of dealing with people in an industrial setting. The management was seen to include establishing organizational arrangements which would establish better relationships with subordinates at all levels.

Management was the growing concern for "human relations" in industry. Marshall E. Dimock emphasized "the whole of administration, which is what philosophy deals with, alone makes possible an approach which gives life and vitality to administration. This is because it emphasizes values and goals, the human elements in administration, the need for making ends and means consistent with each other. Unlike the segmented approach of science and technique, it avoids the dullness and impersonality which result from strict adherence to method and to closed categories."⁹ Also Dimock said "We have swung so far in the direction of the sciences, however, that it would be healthy for us now to realize that administration is essentially one of the humanities. Administration is, or at least ought to be, wedded to subjects such as philosophy, literature, history, and art, and not merely to engineering, finance and structure. That this need is already, though belatedly, being appreciated is evidenced by the decision of large corporations, such as the Bell System, which recently has joined forces with educational facilities of large educational institution, such as those of the University of Pennsylvania... administrators become increasingly human and philosophical, capable of planning ongoing programs which meet human needs and aspirations, when they are unified by areas of knowledge and skill which stress man's humanity and humanity and his philosophical insights."¹⁰

Advocates of the human relations¹¹ approach sometimes lost the sight of the fact activities other than coordinating and motivating subordinates were required. Whether a new product would be launched, a retailer's price war supported, or a senior executive fired, decisions needed to be taken apart from the process of getting things done through people. For management is not solely personnel administration, any more than it is only the successful elimina-

8) "American and England have been recently agitated over such subjects as the tariff, the control of the large corporations on the one hand, and of hereditary power on the other hand, and over various more or less socialistic proposals for taxation, etc. On these subjects both peoples have been profoundly stirred, and yet hardly a voice has been raised to call attention to this vastly greater and more important subject of "soldiering", which directly and powerfully affects the wages, the prosperity, and the life of almost every working-man, and also quite as much the prosperity of every industrial establishment in the nation." Taylor, "The principles of scientific management", reprinted in *Scientific Management*, p. 14.

9) Marshall E. Dimock, *A Philosophy of Administration*, Harper & Brothers, New York, 1958, p. 4.

10) Ibid., p. 5.

tion of soldiering¹²⁾.

It is emphasized by recent writers that coordination, administration, and control functions of management are important. The management function might be divided into two major areas, direction and coordination¹³⁾. Direction, which is in essence the initiation and approval of decision, may be spread throughout the managerial hierarchy, and may also be shared to some extent with outside interest: bankers, labor organizations, customers, etc. But the more important function of business leadership is coordination of which is dependent chiefly on communication¹⁴⁾.

III. The Managerial Hierarchy

Kenneth E. Boulding says "Another characteristic of organization which is not found to any great extent in the biological organism is hierarchy. By this I mean a regular system of subordination and rank within the organization: generals, major generals, colonels, major, etc., in the army; pope, cardinal, bishop, dean, etc., in the church, president, vice-president, general manager, supervisor, foreman, etc., in the business-examples could be multiplied"¹⁵⁾.

In general, the managerial membership is composed of those who perform the kind of functions explained above. Therefore, the management of industrial organizations would include the following:

1. Promoters, top administrative officers, and directors who may be owners, or simply hired professionals.
2. Junior executives, administrators, and other members of the middle management group.

In fact, the inclusion of first line supervisors poses a problem for our analysis. In the United States and apparently also in Russia, those engaged in routine supervision are considered a part of management, and we have included this as one of the managerial functions. Even in other countries where foremen are members of worker's unions, there are firms which have worked to develop a

11) One authority suggests that "--I have not mentioned the usual things--organization, personnel, planning, budgets, procedures, direction, supervision, control, public relations. These are not important, let there be no mistake about that. But they are important only insofar as they are related to the larger problems of culture, economics, and human relations that I have mentioned up to now. ...If you are now administering a program of your own, have in the past, or think you might some time, make a check list of what you have to decide and do and you will find, I think, that there is an escape dealing with culture, economics, values, human nature." Dimock, Op.cit., p. 11.

12) Harbison, Op.cit., p. 12.

13) Robert A. Gordon, *Business Leadership in the Large Corporation*, Brookings Institution, Washington D.C., 1945.

14) Ibid., p. 53.

15) Kenneth E. Boulding, *The Organizational Revolution*, Harper & Brothers, New York, 1953. p. 32 (Preface).

strong management orientation in their first level of supervision.¹⁶⁾ A recent study of the status of foremen in A. Zaleznik suggests: "the foremen in a modern work unit, unlike the specialist, has administrative functions. The chief function of the foreman as an administrator is to attain collaboration of people in the work group. Collaboration is a dynamic state in which individuals are able to achieve personal satisfactions through relationships with others. The individuals in the organization bring to the work situation different beliefs and assumptions which determine the way they evaluate people and events about them in relation to themselves."¹⁷⁾ But in Europe and the Orient this is still the exception. In the newly industrializing countries, foremen are almost never considered a part of management. Hence, because of prevailing practices in most of the countries studied, we have rather arbitrarily decided to include foreman as senior members of the working force rather than as a part of management.

In governmental organizations, we can make a similar categorization for those performing top-level functions, and refer to the person involved as members of "economy management." Especially, economy management would include (1) cabinet ministers in charge of economic and planning agencies; (2) administrators of major divisions and departments; and (3) professional personnel and highly trained specialists such as economists, engineers, and scientists; We can similarly think of "association management" as comprising the officers of employer's associations and top administrative personnel which may be employed by them.

Thus, in a broad sense, management includes all the top-talent manpower which is required in economy management, enterprise management and association management. The following quotation from Harbison gives some indication as to what he believes management is:¹⁸⁾

We shall refer to the members of this group as "managerial resources". Our argument will be that these managerial resources, along with labor, capital, and natural resources, are indispensable for the industrial development of all countries. They must be found, developed, and wisely exploited. They are the strategic human resources which are required for the successful development of labor and natural resources. But management is more than the sum total of high-talent manpower in a particular organization. It is a hierarchy both of persons and relationships. It has an ideology, a purpose, an approach, and a consciousness of authority. In larger organizations, authority and management tend to become impersonal. To its employees, the "company" becomes the symbol of authority, policy, and power. In essence, managements have personalities which

16) Harbison, Op.cit., pp. 13-14.

17) A. Zaleznik, *Foreman Training in a Growing Enterprise*, Harvard Business School, 1951, P.216.

18) Harbison, Op.cit., p. 15.

sometimes are quite different from the personalities; others are weak or permissive; and many seem even to have split personalities.

But, the functionaries in the organizational hierarchy are still seen as persons by their superiors, their associates and their subordinates.

IV. Survey of Existing of A "Management Class"

We propose to look at management from three different views¹⁹⁾ and thus to build a threefold concept of its development in industrial society.

From one perspective, management is an economic resource, or a factor of production. In this respect, it is similar to capital, labor, or natural resources and is combined with them in varying factor proportions in a productive process.

From a second perspective, management is a system of authority. In industrial society there are the managers and the managed. Within the managerial hierarchy itself, there are lines of command and patterns of authority in all levels of decision-making. In a very real sense, management is a rule-making and rule-enforcing body, and within itself it is bound together by a web of relationships between supervisors and subordinates.

From the third perspective, management is a class or an elite. In any industrial society, the members of management are a small, but usually aggressive minority. In varying degrees in different countries, they enjoy a measure of prestige, privilege, and power as an elite. Entry into the management class is of necessity restricted, and thus it is important to map the avenues of access to its ranks and to identify those who are its gatekeepers.

The modern capitalist society is one of commodity production, that is, production for the market, each commodity having an "exchange value" represented by its "monetary price". Associated with this commodity production is production for profit rather than for use; and associated with the capitalist economy is the phenomenon designated as the periodic economic crisis.

In the capitalist economy there are essentially two classes of people—those who own the instruments of production and hire the labor to operate the instruments, and those who furnish the labor. The individual citizen owes allegiance to the state rather than to another individual or group. In the economic field the state has been subordinate to the capitalists, and state action was largely to develop capitalism. Although the so-called state makes the law, the laws are, of course, made by men. However, the men in these law-making bodies were representative of the capitalist class—bankers, merchants,²⁰⁾ industrialists. The legal system, enforced by the state, was to uphold the capitalist structure. The capitalist society included individualism, private initiative, natural rights, and the idea of progress. Capitalists were essentially the ruling class. Those who have considered the situation have held either that capitalism will continue

19) Ibid., pp.19-20.

for a long time, or that it will be replaced by a socialist²⁰. James Burnham believed that the theory of the managerial revolution predicts that capitalist society will be replaced by "managerial society", that, in fact, the transition from capitalist society to managerial society is already well under way.²² In other, words, the transition may be described as going from patrimonial management to political management, and professional management.

In most industrial societies, only a few are able to gain access to the ranks of management. Frequently, this access has been on the basis of "whom you know" rather than "what you know." Some families or family groups may control important segments of industry, as in Japan in the late nineteenth century or in India at the present time. In the Soviet Union, the government, and more particularly, the Communist party, may retain the prerogative to designate the gatekeepers. Education is increasingly an important entrance requirement in many other societies, whereas in some the opportunity to rise from the lower ranks may be a possibility. Thus, professional training and experience in management become avenues to higher managerial positions.²³

For the following analysis, we shall resort to the device of "ideal" types to distinguish between different kinds of management. The sort-hand terms for our three basic types of management are patrimonial, political, and professional.

V. Patrimonial Management

This Patrimonial Management is business management in which ownership, major policy-making positions, and a significant proportion of other jobs in the hierarchy are held by members of an extended family. The effective decision-making authority is centered in the family, and the goals of the enterprise are oriented toward the interests and the aspirations of the family.

Patrimonial Management is common in the first stage in a country's march toward economic development. In countries where the family is one of the dominating social institutions in the society, the family enterprise is a simple and logical instrument of business activity. Loyalty and trust within the hierarchy are assured. The forces of tradition and religion support the essential

20) But not that the economic and political system which we call modern capitalism is without defect. Calvin B. Hoover pointed out that "The defenders of capitalism must pick and choose among the modifications of capitalism which have taken place; they must choose among degree of government control and intervention, stronger or weaker measures to equalize income distribution, and so forth." Calvin B. Hoover, "Can Capitalism win the Intellectuals?", *Harvard Business Review*, Vol. 37. No. 5. September/October 1959, p. 50.

21) George Filippetti, *Industrial Management in Transition*. Richard D. Irwin, Inc., 1953. pp. 280-281.

22) James Burnham, *The Managerial Revolution*. Indiana University Press, 1960, p. 29.

23) Harbison, Op. cit., p. 58.

integrity of the family dynasty. The enterprise provides the means for safeguarding the security and the reputation of the family.²⁴⁾

Thus there are certain clear advantages in an industrial society. Perrin Stryker pointed out follow:²⁵⁾

"If the sons of highplaced executives were generally up to their fathers in competence, the fact would be readily notable in U.S. business. There would be extremely competent heirs all over the place. There aren't."

"But sons do make out well enough in their fathers' companies, even if they don't always have the old man's talents. Professor Warner and researcher Abegglen found that of some 1,100 executives who had relatives in their companies half become chief executives of their companies. But of those holding executive titles below the vice-presidential level, only about one-sixth had, at one time or another, family connections in their firms. 'High position in the hierarchy is positively connected with the presence of kindred', was the scholars' not surprising conclusion."

"They also found that nepotism is more prevalent in smaller companies than in bigger ones. In about a third of those with sales of less than \$10 million, executives had relatives in the same firm; but in only 9 per cent of the big companies (over \$250 million in sales) did executives have relatives. Moreover, executives who had relatives in their companies took, on the average, about twenty years to each top management; those without relatives took about five years longer."

The early management in England was of the patrimonial management type. Reinhard Bendix says that "In a survey of 132 industrialists, selected for their prominence in manufacturing during the period 1750-1850, it was found that about one-third came from families of workers and small-scale farmers, whereas two-thirds came from families already established in business. In the decades after 1760 there was a frequent rise and fall of new entrepreneurs. There were also many cases in which the families of new entrepreneurs consolidated their economic position or in which already established families succeeded in maintaining and enlarging their enterprises. Moreover, neither the established families nor the second generation of the new manufacturers were self-made in the same sense as the early industrial pioneers."²⁶⁾

In this century, many European owners' sons and in-laws have proved themselves,

24) Ibid, p. 69.

25) Perrin Stryker, "Would you Hire your Son?." *Fortune*, March 1957, p. 220.

26) Reinhard Bendix, *Work and Authority in Industry*, John Wiley & Sons, Inc., New York, 1956, p. 24.

of course, to be exceedingly capable. A notable case is the Krupp family, of Germany, whose able chief, Alfred Krupp von Bohlen und Halbach, is the fourth generation to inherit the steel dynasty founded in 1811 by Friedrich Krupp. (See "The Comeback of Krupp," *Fortune*, Feb 1956.)

In the United States, nepotism, flourished in the early mercantile economy, and probably reached its finest flower in the great period of industrialization following the Civil War. Nepotism has probably been most prevalent among ethnic groups with a traditional sense of family clannishness. It is a familiar practice among many Jewish businessmen, who would argue frankly that one of the purposes of a prospering business is to provide satisfactory careers, or perhaps merely jobs, for one's kinsmen. For that matter, this was also the view of many old Yankee millionaires.²⁷⁾ This is probably even more true of contemporary Korea and India, where the important management posts tend to be the closed preserve of a few leading families. However, Japanese economic development probably represents the extreme manifestation of the patrimonial form, as exemplified in the Mitsui code: "Managers... are those persons whose essential role is to guard the business of the house."

As Perrin Stryker previously pointed out, "Patrimonial management may be especially effective in the early stages of industrial development. In a society where trained skills are scarce and the sons of the wealthy have much of the training, nepotism may be relatively costless. If the key members of the family dynasty are competent, well educated, and diligent, patrimonial management may be quite dynamic. This is well illustrated by some of the patrimonially oriented enterprises in Germany in which the typical industrialist is usually himself a man with extensive technical or professional education. He frequently exerts great pressure upon his son or sons-in-law to prepare themselves for the responsibilities they will be 'called' to assume. Thus, when motivated by a creed of hard work and determination to acquire or maintain a position of power, the family enterprise can be a very effective agent of industrialization."²⁸⁾

However, under patrimonial management sons were not expected to know how to manage. Actual management of the firm was carried on by hired hands.²⁹⁾ Also, business has enough unavoidable difficulties and unpleasantnesses in promotions, raises, and firings, without having to decide whether to promote, raise, or fire your own son. It is embarrassing to the father and disrupts any good relationship with his son. In terms of ethics, nepotism is immoral. The dictionary definition of nepotism,³⁰⁾ of course, is the advancement of relatives on the basis of family rather than merit. But one executive says "Nepotism is immoral is not alone in his belief that relatives per se are bad business."

27) Perrin Stryker, *Op.cit.*, p. 135.

28) Harbison & Myers, *Op.cit.*, p. 70.

29) Perrin Stryker, *Op.cit.*, p. 135.

For example:³¹⁾

"Personally, I would not employ a relative. It's unfair to the relative and possibly unfair to other. A relative is trouble."—President of a construction-products company in Massachusetts.

"We wouldn't even hire a woman as a secretary if she were so much as a niece of an executive."—Personnel manager of a steel-products company in Kansas.

"I've never given a relative of mine a job. Neither of my two sons has a chance of getting into this company."—James Beckett, Chairman of the executive committee, Interchemical Corp., New York—one of the few executives willing to have their views on the subject attributed to them.

These are exhaustive opinions of a practice that is widespread in the United States business.

The family enterprise is usually most effective in small and relatively simple organizations such as retail and wholesales trade, craft industries, and small or medium-sized industrial plants. In such cases it is relatively easy for the family, particularly the extended form, to recruit and generate from within its own orbit most of the managerial resources needed. However, if large-scale and complex enterprises are either required or undertaken, the family is eventually forced to bring in outsiders, whose qualifications are mainly professional training and competence.

Japanese development not only illustrates the extreme of the patrimonial form, but also demonstrates the tendency toward extension of the base for access to management as industry become more complex. The house of Mitsui was able to maintain its supremacy by expanding its patrimonial in-group to include eleven families, each of which included within its compass loosely defined common ancestry.³²⁾

When the family enterprise expands, its patrimonial form is undermined. To find technicians, engineers, and administrators with the requisite knowledge, training and skill, it must go beyond its blood-relatives. Significantly, the family enterprise par excellence, Japan's house of Mitsui, illustrates this need for the professional most clearly. It was forced to acknowledge that adding respectable families and even their cousins could not develop the required managerial resources. The Mitsui and other Zaibatsu were forced to seek out and

30) There are many degrees of business nepotism, such as out and out nepotism, nepotism-plus-training, nepotism-plus-training-subject-to-company-veto, and vindicated nepotism. One way of defining and differentiating them is according to the conditions under which the favored relative is introduced into the company. (See *Fortune*, March 1957, pp. 133-134.

31) Perrin Stryker, *Op.cit.*, p. 134

32) Stryker, *Op.cit.*, p. 132.

compete for "... the best graduates of the Universities and the higher technical and commercial schools..." regardless of their socials or family origin, with Mitsui itself apparently concerning its recruitment efforts in the inter-war period on Hitotsubashi University, Tokyo's leading University of commerce. Today, there is much less significance attached to the old family dynasties in Japan's major enterprises.³³⁾

As the number of professionals in the patrimonial enterprise expands, the members of the family find it increasingly difficult to control management. There comes a point where the family interests are better promoted by turning over the enterprise to a competent professional managerial careerist. This is what happened in the case of hundreds of family enterprises in the United States, and the same trend is apparent in the larger enterprises in England, Germany, and even France and Italy today. In the most advanced industrial economies, therefore, the proprietary capitalist and the family enterprise, though still important in petty trade or small-scale industry, no longer play an influential role in large industrial establishments.

VI. Political Management

In the modern economy, private enterprise may make most of the decisions and policies; but there is a residue which must fall to government. In the responsibility for total spending, for the effective use of resources that belong to the nation, for stability, for assuring production when private agreements bog down, government takes a hand. The more successful private enterprise is in attaining and maintaining high levels of employment and fair distribution, the less responsibility government has to assume. But even under the most favorable conditions, government has to be responsible for some planning, for spending, and under special condition, for controls.³⁴⁾

We are proud that our private-enterprise system has demonstrated itself over a period of many years to be the most dynamic and most productive that the world has ever known, but we also know that this demonstration has been intermittent. We know that for every period of boom, our system has suffered a period of depression, and that our economic system has grown more complicated the severity of these depressions has sharply increased. A serious economic upset has followed every major war. World War II, because of its magnitude and intensity, brought inflationary pressures far greater than any we had known in the past.³⁵⁾

33) Harbison, Op.cit., p. 73.

34) Seymour E. Harris, "The Issues", *American Capitalism*, Alfred A. Knopf, New York, 1948, P. 9.

35) S. E. Harris, Chester Bowles, "Blueprints for a Second New Deal", *American Capitalism*, pp. 13-14.

Our uneasiness over the future of private enterprise in America has been increased by the gradual weakening of capitalism in many countries overseas before the war and at an increasing tempo in the postwar period. In the 1930's, we watched Hitler and Mussolini grow to power on the wreckage of capitalist systems which had failed to protect the people against the increasingly violent swings of the business cycle.

In the United Kingdom and France and other democratic European countries, we saw during this same period the gradual decay of the capitalistic framework. Capitalists in the United Kingdom and France were clearly losing their old willingness to take risks, their traditional drive to increase sales and profits through improved products and lower prices.³⁶⁾

In the United States, we saw signs of the same ominous influences which had seriously weakened capitalism in France, England, and other countries across the seas. Monopoly was growing. Many business groups, with little understanding of the workings of the United States economy—and even less understanding of the political temper of our people—were stubbornly resistant to even modest reforms.³⁷⁾

The conviction that we cannot again accept a major depression is not a mere theory. It is a fact which will have a profound effect on our economic future. Today, American people are determined that we must not and cannot accept the economic waste and heartbreak that go hand in hand with depression; and with this new conviction, for better or for worse, goes the knowledge that if American private enterprise system fails, other alternatives are possible.

Today, throughout the world, there are four more or less clearly defined economic systems. One is Fascism. In the Fascist state, corporate ownership has been left largely intact under rigid government direction, labor has been regimented, and hours, wages, prices, and profit closely controlled. Workers in Germany and Italy before the war were induced to accept this system through the promise of greater job security, welfare benefits, and full employment.

A second approach is that of communism. Here private ownership is eliminated and the state owns as well as directs all production facilities as part of a national economic plan. It differs from Fascism in that the industrialists and the landowners are wholly removed from positions of power.³⁸⁾

The third and fourth economic system—private capitalism and democratic socialism—are both vigorously antitotalitarian. Neither system exists anywhere in a pure form. We find private capitalism in its purest state in the United States and Canada. In the Scandinavian countries, in England, France, Holland, Belgium, New Zealand, and Australia, private ownership has been sharply modified by government ownership of some basic industries, the development of

36) Harris, *Ibid.*, p. 15.

37) Harris, *Ibid.*, p. 16.

38) Harris, *Ibid.*, p. 17.

strong co-operatives, and an increased dose of central planning. In all of these countries, while they are dominantly capitalistic or socialistic, political democracy and individual freedom are strongly rooted.³⁹⁾

Government could establish production goals for basic industries where production restraints are holding down output. If these goals cannot be met by existing privately owned industries within a reasonable period, government would fill in the production gap by establishing its own plants.⁴⁰⁾ Responsibility of government is to provide those services which we cannot reasonably expect to be created by individuals operating on a profit and loss basis. We could not reasonably expect, for instance, that the Tennessee Valley Authority, calling for an investment of more than one billion dollars, could be created by private capital.⁴¹⁾

Today governments are moving farther and farther away from their limited activities of preserving the "integrity of market and of the capitalist property relations," and are reaching farther and farther into the economy, taking larger areas away from the capitalist. Under these conditions the making of profits in enterprise becomes unimportant. The government is now the biggest business and as such it has shown an ability to run at a loss intolerable from the standpoint of capitalism. The government has increased its economic activities and controls, in ever widening spheres, in the activities of others. Although the United States has lagged behind other nations, it has participated in these developments. The actual direction of the processes in both governmental—owned-and-controlled areas are in the hands of the men in the various governmental bureaus and commissions which Burnham includes in his managerial group. The direction of the movement is still farther in this direction. We have marked the movement of "bright young men" into government as career where formerly they would have gone into private business.⁴²⁾

According to the above view of economic transition, political management may rise from patrimonial management and professional management. Political management, is less common in industrial societies, and like patrimonial management, its chances for survival are slim in modern industrial societies. Harbison and Myers say "political management exists, where ownership, major policy-making positions and key administrative post are held by persons on the basis of political affiliations and loyalties. Access is thus dominated by political considerations, and the orientation and interest of management are colored throughout by political goals. However, just as patrimonial management may hire professionals to work under its direction, so political management may

39) Harris, *Ibid.*, p. 13.

40) *Ibid.*, p. 24.

41) *Ibid.*, p. 25.

42) George Filipecki, *Industrial Management in Transition*, Richard D. Irwin, Inc., Homewood Illinois, 1953, p. 285.

enlist the services of professionally trained managers and technicians.⁴³⁾

One of the strangest business landscapes in the world—and one of the great political battlefields of the world—is the state-bossed sector of the economy of Italy. It embraces some industries owned outright by the state, some “private” companies in which the Italian government is the majority stockholder, some companies that are somewhat more “private” but still effectively controlled by the state.⁴⁴⁾ Like Italy, political management is often commonly associated with government-owned and-operated enterprises, particularly in Western Europe. Sometimes, as in the case of postmasters in principal cities in the United States, political managerial appointments are regarded as a sort payoff or reward for the politically faithful. Some of the nationalized enterprises in India were at first headed by managing directors whose principle qualifications appear to be their government connections rather than their proved ability as managers.⁴⁵⁾ In Korea, Syngman Rhee’s government followed India’s way for many years, the Egyptian National Railways had managements which were essentially political in nature. Indeed, the danger in all socialized industries is that managerial appointments may be made at the outset on the basis of political connections rather than professional competence.⁴⁶⁾

There may be an element of loyalty and trust involved in managerial appointment to public enterprise, as in the case of patrimonial management.

In Soviet Union, warning about the necessity for the “correct” political beliefs in state enterprise management appeared as early as the 1920’s and there were official reprimand and discipline by 1934. The Kremlin demonstrated an extreme example of political management.

Fortune reported:⁴⁶⁾

No single manager, of course, is typical of all Russian managers, particularly one who has the chance to escape to the West. ...It is also necessary to get young bosses. Few men above forty can stand the strain. To get the greatest production possible, the Communist state puts the manager under very heavy tension and subjects him at one and the same time to pressures of great rewards and drastic punishments. ...When the trouble is low output, the manager may simply be junked—thrown back to the ranks of the workers or, perhaps, the foremen.

Party members appointed to managerial positions, but in many cases, these managers, and others were checked by political commissioners or representatives with power equal to the technical managers in each enterprise. Eventually, the inefficiency of this system resulted in the establishment of “one-man management”

43) Harbison & Myers, Op.cit., p. 73.

44) Herbert Solow, “The biggest Capitalist in Italy”, *Fortune*, July 1954, p. 85.

45) Harbison & Myers, Op.cit., pp. 73-74.

46) “How business gets done in Russia”, *Fortune*, Feb. 1953, pp. 199-200.

in the factories, although party membership and loyalty was still an important criterion. This coincided with political stability of the regime, and in post-Stalin Soviet practice, professional competence clearly seems to have replaced party loyalty as the primary standard for managerial appointments.⁴⁷⁾

A similar trend from political toward professionally oriented management is observable also in countries like France, Italy, Egypt, and India, where nationalized enterprises are increasingly being staffed by managers with previous training or managerial experience.⁴⁸⁾ As in Great Britain, earlier attempts have been made in these countries to encourage, in one way or another, "nonpolitical" management. In some cases, all managerial positions are subject to civil service regulations. For example, Douglas V. Verney described "The most popular form in Britain (other than local authority enterprises, which are excluded from this survey) has proved to be the public corporation, independent of the Civil Service but governed by a special statute or charter instead of company law".⁴⁹⁾ In others, public enterprises⁵⁰⁾ may be given a quasi-independent status in order to free them from political control and also sometimes from unduly restrictive civil service regulation. The development of semiautonomous public corporations in Britain's nationalized industries is a good example of the way in which "nonpolitical"⁵¹⁾ management has developed in public enterprise.

47) Harbison, *Op. cit.*, p. 74.

48) In Italy, I.R.I. (The Istituto per la Ricostruzione Industriale set up in 1933.) is run by a board composed chiefly of civil servants designated by Cabinet ministers. The board has tempted some able managers from private industry to some of the I.R.I. companies by offering above-average pay. That is one reason why some I.R.I. companies—several public utilities, the big Dalmiane steel-tube plant near Milan, a small Naples radar maker named Microlambed—are healthy. Herber Solow, "The biggest Capitalist in Italy", *Fortune*, July 1954, p. 83.

49) Douglas V. Verney, *Public Enterprise in Sweden*, Liverpool University Press, 1959, p. 2.

50) Public enterprise is a broad term used to describe a variety of state activities. However, French economist, Maurice defined the concept of public enterprise. He says: "The public sector of the economy, may be most easily defined by a process of elimination. It excludes enterprises that are entirely operated by private individuals or groups. It also excludes economic enterprises that are owned by governmental units inferior to the national government, like the departments and cities (i.e. local authorities), and public services performed by agencies of the national government whose purposes are not mainly economic, like defence, education, and the administration of justice." Verney, *Ibid.*, p. 1.

"There were three main types of public enterprise—the government Department, the mixed undertaking, and the public corporation". Verney, *Ibid.*, p. 3.

51) Wettenthal explains "constitutionally, Tasmanian Grain Elevator is therefore rather an oddity, being neither a department nor a public corporation in the conventional sense. The Manager has considerable authority, and yet little attempt is made to safeguard him from undue political influence." R. L. Wettenthal, "Public Service and Public Corporation in Tasmania", *Public Administration*, The Journal of the Australian Regional Groups of the Royal Institute of Public Administration, University, Vol. XVIII, No. 4, December 1959, p. 36.

Political management is simply incapable of coping successfully with the intricate tasks which must be performed in a modern largescale industry. In this respect, it is even less viable, in our judgment, than patrimonial management. But this does not imply that management is likely to be free of all political influence even in the most advanced societies. A good example is the inclusion of former highly placed government officials in the managerial staffs of large French firms. There are cases, too, where private companies may be forced to provide jobs for persons foisted upon them by persons in high political office. This kind of political influence in most cases, would not mean that all major policy-making positions and key administrative posts are held on the basis of political affiliations, and thus we should not refer to it as political management. It does indicate, however, that in practice it may be difficult to find any management which is completely "nonpolitical" in its orientation and class structure.

Quite apart from this aspect of political management, we should note again the basic similarity between patrimonial and the usual form of political management: the importance of finding managers whom a ruling group can trust and who will be loyal and obedient. But rulers or prime movers in industrialization gradually find that the stress on loyalty and obedience is at the expense of efficiency. It becomes increasingly evident that they must rely on competence rather than connections as the standard for access to managerial positions. This is the logic of the industrialization process. The record of such diverse economic and political societies as Great Britain, Japan, the Soviet Union, and the United States testifies to the ultimate triumph of professional management in advanced industrial societies.⁵²⁾

VII. Professional Management

In a strict sense, professionally oriented management is enterprise management in which major policy-making positions and nearly all other positions in the hierarchy are held by persons on the basis of alleged or demonstrated technical competence rather than on relationships to a family or to a political regime. Until the first part of the 20th Century, the concepts of ownership and management were synonymous, but gradually management duties shifted from the owner to other persons who are "professional managers". While this shift from ownership management to professional management has taken place over a period of a century, it can occur within a company and sometimes, within an individual. Because of a person's particular qualities, he may be able to start, own, and run a company by himself. However, the company may grow until it is too big to operate solely by its owner, or be beyond the particular qualifications of the founder. The owner himself may realize this and hand

52) Harbison & Myers, *Op.cit.*, p. 75.

part or all of his responsibilities to another person who is capable of managing the business. This person is called a professional manager.

According to the late Justice Brandis, "A profession is an occupation for which the necessary preliminary training is intellectual in character, involving knowledge and to some extent learning, as distinguished from mere skill—which is pursued largely for others, and not merely for one's self—and in which the financial return is not the accepted measure of success."⁵³ To be sure, within the ranks of management there are members of professions such as law, business, economics, engineering, or science.⁵⁴ They are sometimes engaged in the work of their respective professions but they also may hold administrative posts quite unrelated to their previous professional training.

Administration and general management increasingly constitute a field demanding some form of advanced training and preparation. A supply of properly trained general managers is an essential need in modern industry if able administration is to develop.

The question of whether or not management is becoming a profession is also beside the point here. It stands to reason, however, that if mental qualities similar to those presented in this article are developed and accepted as standards, management will come much nearer to the status of a profession, that we know of today. The managerial mind is developing many similarities to scientific, engineering, medical, and legal minds, but also some differences.⁵⁵

The stress upon professional management is found also in countries in the process of industrial development. The Administrative Staff College of India, patterned after a similar institution for middle and upper management in Great Britain, states under "objects and aims":⁵⁶

As industrial and commercial enterprises as well as the activities of the Government become increasingly wide-spread and complex, the administrators in charge are required to show a capacity "to hold in mind a total and perhaps distant situation, to plan ahead imaginatively and yet with the necessary margins, to assemble in the right relation and at the right time diverse material and human resources, to take consistent decisions on points of detail and in turn to see that their junior executives in their several spheres know how to do the same." In short, every large enterprise calls for the constructive skill and technique of leadership, policy making and planning which are not simply gifts of nature. Training is necessary.

53) Ibid., p. 76.

54) "1,7000 Top Executives", *Fortune*, November 1959, p. 139.

55) Charles E. Summer, Jr., "The Managerial Mind", *Harvard Business Review*, Vol. 37, No. 1, Jan.-Feb. 1959, p.69.

56) "The Administrative Staff College, India", *The Plan*, New Delhi, Feb. 1957, p. 8.

This need for professional managers in public as well as private enterprise is widely understood in the advanced industrial countries. This point was effectively made by the top managers of the Tennessee Valley Authority in a paper presented at the Eighth International Management Congress in Stockholm in 1947.⁵⁷⁾

The need for professional management is no less in a totalitarian, state enterprise economy like that of the Soviet Union. At the time of the Bolshevik Revolution in 1917 there were no communist industrial executives, and Lenin apparently believed that management consisted of "The extraordinarily simple operations of watching, recording and issuing receipts, within the reach of anybody who can read and write and who knows the first four rules of arithmetic. Today, the professional factory manager enjoys high status as a member of the Soviet elite. As one student of the Soviet economy has said: "It is the resourcefulness, the ingenuity and—not infrequently—the dishonesty of the Soviet organization man that makes the Soviet economy work despite all the blunders of the planners and administrators above him. One of the reasons for the decentralization of Soviet economic administration and factory management under Khrushchev is said to be the inefficiency of a highly centralized system which handicaps the work of the competent professional manager at the plant level."⁵⁸⁾

Thus, we see that advanced industrial development—whether in capitalist, socialist, or communist economics—demands a professionally oriented managerial elite. Access to managerial positions increasingly must be based on competence. And competence becomes over more dependent upon specialized professional training and experience. As a consequence, the managerial class in the more advanced industrial societies inevitably tends to become an elite of competence, which means that education and training, rather than family ties or political connections, must inevitably become the principle avenue of access to its ranks.

We conclude this section with a note of warning: patrimonial, political, and professional management seldom exist as pure types. In the real world, managements are often quite heterogeneous in composition. As we have indicated, the family-dominated enterprise may bring many hired professionals into its ranks. The professionally oriented top management may select from among otherwise qualified candidates those who come from particular families, race, religions, or political parties. No management is completely free of nepotism, and even the most professionally oriented organization builders may sometimes favor the persons they know over the ones who have the best education and experience. For purposes of our analysis, however, we are not concerned with

57) David E. Lilienthal and Gordon R. Clapp, "Progress in Regional Planning in the U.S.A." paper submitted to the *Sectional Meetings of the Eight International Management Congress*, Stockholm, Vol. II, 1947, p. 239.

58) Harbison & Myers, *Op.cit.*, p. 78.

the non-existence of professional management in its pure form. Our argument has been simply that in the logic of industrial development the management of enterprise is forced to move away from a political orientation set forth in our typology.⁵⁹⁾

VIII. Conclusion

The evolution of management as a class has revealed that it must inevitably become more professionally oriented as industrialization advances. The types of patrimonial or political management which may be appropriate in the early stages of industrial development are incapable of controlling or operating modern large-scale enterprise. The managerial elite, therefore, becomes an elite of brains and education, and professional training instead of family or political connections must become the principle avenues of access to its ranks. Public opinion in all industrialized countries outside the communist block turned overwhelmingly against nationalization.

Thus, whatever the reasons for the movement toward nationalization of industry in nature countries, it is now clear that the movement has not proved itself. And the understanding of politico--economics principles can rest are more favorable now in respect to these countries than they have been for many years.⁶⁰⁾

Anyway, the rising careerist managerial class, however, is not destined to wield great political or economic power in private-enterprise societies, socialistic economies, or totalitarian states, as it increases in membership and functional importance with the industrialization of a society, the managerial class becomes less exclusive. And the trend toward professionalization turns its interests and its energy ever more inward as, true to its professional outlook, it becomes increasingly involved in the growing complexities of the operation of modern enterprises.

59) Ibid., pp. 79-80.

60) Arthur Larson, "The Contagion of Freedom" *Fortune*, February, 1959, p. 93.

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