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Louisiana State University and Agricultural & Mechanical College

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The Louisiana State University and Agricultural and Mechanical College
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TRANSFERABILITY OF MANAGEMENT PHILOSOPHY AND
PRACTICES TO DEVELOPING COUNTRIES: A CASE STUDY
OF AMERICAN AND IRANIAN INDUSTRIAL ENTERPRISES

A Dissertation

Submitted to the Graduate Faculty of the
Louisiana State University and
Agricultural and Mechanical College
in partial fulfillment of the
requirements for the degree of
Doctor of Philosophy

in

The Department of Management

by

Ali Reza Parsinia
B.S., Louisiana State University, 1968
M.B.A., Louisiana State University, 1972
May, 1976
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ABSTRACT

This study is designed to investigate the extent to which management knowledge can be transferred effectively from one environment to another. However, the crux of transferability of management resides on the premise of whether management is culture bound or whether it can be effectively transferred across cultures with some modifications to suit the new environment.

The primary purpose of this research was to test the hypotheses concerning the effects of environmental and cultural factors on transferability of management knowledge from one environment to another. To achieve this purpose, five concepts—management philosophy, management process, management effectiveness, environmental factors, and firm efficiency—were employed as variables. In order to investigate the relationships among these concepts, a two-way comparison among a group of U.S. subsidiaries operating in Iran, and a group of comparable Iranian firms in Iran were made through the gathering of empirical data. The general relationships with which this study was concerned is represented through the following hypotheses.
Hypothesis 1: Management philosophy of American firms operating in Iran tends to be different from the management philosophy of comparable Iranian firms in Iran.

Hypothesis 2: Firms operating in the same environment with different management philosophies tend to have different levels of management effectiveness.

Hypothesis 3: Firms operating in the same environment with different management philosophies tend to use different management practices.

Hypothesis 4: The greater the direct effect of a management practice upon the employees' value systems, beliefs, and attitudes, the less is its applicability to another environment.

Hypothesis 5: Firms operating in the same environment with different management philosophies tend to have different levels of efficiency.

Based on analysis of data, Hypotheses I, II, III, and IV were accepted. No decision was made on Hypothesis V as a result of a lack of available data.

The dominant environmental factors of Iran which bear on the operations of enterprises were identified as socio-cultural, political-legal, educational, and economic.
Values held in different segments of the Iranian social structure; level of illiteracy; educational philosophy; shortages of skilled, semi-skilled, and administrators; and business laws were shown to affect management practices.

The comparative analysis of management philosophies, management practices, and management effectiveness of U.S. subsidiaries and Iranian firms indicated some significant similarities as well as differences. Analysis of data indicated that, as a whole, American firms were more sophisticated in terms of their attitudes toward employees, consumers, suppliers, distributors, government, and community than their local counterparts.

In regard to the relationships between management philosophy and management effectiveness, the analysis of data indicated that there exist a positive relationship between levels of sophistication in management philosophy and levels of effectiveness.

The finding of this research support the conclusion that American management philosophy is not universally applicable but rather is culture-bound. In regard to management practices, the results showed that management functions employed in American environment were also applicable to the Iranian environment. That is,
although there were measurable differences in the way managers in American and Iranian firms performed their functions of planning, organizing, staffing, directing, and controlling; the functions themselves remained basically the same. Thus, the differences can be attributed to degree, scope, sophistication, and precision of how management functions are carried out and not to the nature of these functions.
CHAPTER I

INTRODUCTION

In the years since World War II, industrialization and economic development have become universal goals for underdeveloped or developing nations of the world. The underlying premise on the part of many leaders and national policy makers of those countries appears to be that economic development and growth are desirable and feasible and that their countries should not only aspire to economic development and industrialization, but should also have an effective plan to achieve those objectives.

One of the best known theories of economic development and growth is by Rostow.¹ His model presents an evolutionary picture of economic development of all societies in terms of five categories: the traditional society; the preconditions for take-off; the take-off; the drive to maturity; and the age of high mass consumption.

A traditional society is characterized by pre-

Newtonian attitudes and values towards the world. Newton is identified here as a symbol for utilization of scientific method and analytical approach to identify the external world objectively.

Preconditions for take-off is the second stage of growth which identifies societies in the process of transition. At this stage, new entrepreneurial and enterprising men emerge who vigorously mobilize the resources of the society and are willing to take risks for the sake of profit and modernization. The traditional society continues to exist side by side with modern economic activities of this era.²

The take-off exhibits the life of modern societies. During this period, the rate of effective investment and savings rise from five per cent to 10 per cent or more of the national income. Private enterprises expand rapidly, generating profits—a large segment of which are reinvested in new plants and equipment. Meanwhile, the rapid growth of the industrial sector stimulates employment, expands support services, and causes a further expansion in urbanization. This whole process causes a significant increase in the personal income of

²Ibid.
those who save at high rates and make their savings available to be invested in the private sector.3

After take-off, there follows a long period of sustained (possibly fluctuating) economic growth in which the economy reaches its maturity. At this stage, the economy broadens its scope to move beyond the basic industries produced in the nation state, and changes its make-up to absorb modern technology and take advantage of international markets.4

As a society enters the age of high mass consumption, allocation of resources tends to be channelled toward the production of consumers' durables on a mass basis. Meanwhile, the orientation of the economy gradually changes towards providing services. In addition, as the result of emerging political pressures, the society tends to emphasize the allocation of resources to social welfare and security.5

Based on Rostow's theory, many of the underdevel-
oped or developing nations are still in the first or second stages of development. Furthermore, one of the main ingredients for economic development in the "take-off" stage, after which economic development becomes self-generating, is the presence of entrepreneurs, enterprising individuals, and professional managers who vigorously mobilize the resources of the society. For this reason, the role which management knowledge plays in the economic and industrial growth of a developing society is a vital one. That is, economic progress can be expedited through optimization of efficiency in mobilizing, allocating, and utilizing human and physical resources. However, it has been recognized that effective and efficient deployment of resources do not come into being because of the existence of some natural laws of nature. Rather, as the French economist Jean Baptiste Say first recognized, the vital factor necessary for economic and industrial growth--in addition to land, labor, and capital--is the managerial expertise of a country.6

Harbison and Myers, based on their analysis of management practices in several countries, have concluded:

As an economic resource, management is similar in important respects to capital. If a country wants to industrialize it must accumulate the strategic human resources required for management just as it must acquire capital for power installations, roads, bridges, communication systems, and factories. It must also find the means of channeling these strategic human resources into the most productive activities, and as the case of accumulation of capital, a country must generate a critical minimum quantity of productive managerial resources in order to "take off" on the road to industrialization.7

Land, labor, and capital by themselves are necessary but not sufficient for economic progress. The crucial element which activates human and material resources is the quantity and quality of managers in a particular country. In this sense, natural resources, human resources, and capital must be combined to produce usable goods and services. The rapid growth rate of economies of Germany and Japan, since the end of World War II, reflects the significant role of management in the development process of these countries.8

Farmer and Richman have expressed their views in


these words:

We view management as the single most critical social activity in connection with economic progress. Physical, financial, and manpower resources are by themselves but passive agents; they must be effectively combined and coordinated through sound, active management if a country is to experience a substantial level of economic growth and development. A country can have sizeable natural and manpower resources including plentiful skilled labor and substantial capital but still be relatively poor because very few competent managers are available to put these resources efficiently together in the production and distribution of useful goods and services.9

Economic development and growth are usually measured in terms of the rate of increase in aggregate GNP per capita, or the average increase in output per worker employed (productivity of labor). The basic assumption is that all countries desire a higher level of GNP and per capita income to less or the same level of GNP and per capita income with less labor input, in order to have more leisure.10 In either case, there is a need for higher productivity and efficiency over time.

Keith Davis expresses the same viewpoint even more strongly—


ly when he concludes that "Almost every civilized country of the free world has established as one of its national goals, an increase in the productivity of its people. To accomplish this, its own people will have to adjust to new ways of working as determined by modern technology and scientific management."^11

Hence, the genesis of the present study resides on the premise that economic growth and development, through increased productive efficiency, are desired by all developing countries. This basic assumption is valid for both capitalistic and socialistic countries. That is, in a capitalistic society, greater efficiency and productivity would lead to a higher profit for owners, increased rewards for managers, and higher wages for employees. In a socialistic society, higher productive efficiency would cause a higher aggregate output of goods and services (GNP) for the country with the same inputs.^12


Statement of the Problem

One of the major objectives of developing countries, in their effort to industrialize, is to acquire and adopt the more efficient tools and techniques used by the more advanced countries. In some situations, however, transfer of techniques and productive tools from one country to another have proven to be ineffective, and in some cases have resulted a less efficient production system. What has been lacking in these transfer situations is that organizational and managerial techniques are also required to be transferred along with technical know-how, equipment, and materials. However, the crux of transferibility of management resides on the premise of whether management is culture bound or whether it can be effectively transferred across cultures.

This inquiry is designed to investigate the potential for comparative studies in management. More specifically, it attempts to ascertain the extent to which management knowledge can be transferred effectively from one environment to another. Furthermore, this study is designed to determine—by experimental means and empirical data—what effects, if any, the transfer of
American management knowledge has had on the effectiveness of firms operating in the Iranian business environment.

Purpose of the Study

This research has two primary purposes. The first one is to test the hypotheses concerning the effects of environmental and cultural factors on transferability of management knowledge from one environment to another. To achieve this purpose, five concepts—management philosophy, management process, management effectiveness, environmental factors, and firm efficiency—are employed as variables. In order to investigate the relationships among these concepts, a two-way comparison among a group of U.S. subsidiaries operating in Iran, and a group of comparable Iranian firms in Iran are made through the gathering of empirical data.

A second purpose of this inquiry is to generate data to answer the following questions.

a) To what extent are management philosophies, principles, procedures, or techniques transferable from one environment to another?

b) What are the critical environmental factors which impede the application of
advanced management practices in Iran?

c) What is the nature of management practices of industrial firms in Iran?

d) How do the Iranian firms compare with the American subsidiaries in their practices and effectiveness?

Scope of the Study

This research project primarily involves an investigation of the relationships among management philosophy, management process, management effectiveness, environmental factors, and firm efficiency. Moreover, efforts are made to generate data on the extent of transferability of American management knowledge to the Iranian environment. The research design is based on a modified version of a model for comparative study of management developed by Professors Anant R. Negandhi and Bernard D. Estafen.¹³

Limitations of the Study

The five key variables of this study (management

philosophy, management process, management effectiveness, environmental factors, and firm efficiency) are difficult to quantify and measure on the basis of numerical values. Thus, the scales of measure applied to them involve some qualifications. The attempt made in this study to define these variables in operational terms and utilize them consistently throughout the inquiry, is to minimize the effects of this limitation.

Another limitation is the biases which may come into play by the interviewees in attempting to demonstrate a favorable picture of their firms. This limitation, however, may be kept at minimum by requesting supporting documents and by cross checking with others.

Finally, a business organization is a highly dynamic organism and the environmental factors affecting it change over time. But a researcher can only perceive and document a static picture of the organization vis-a-vis its environment as of a given period of time. Thus, in spite of the care which was taken by this researcher in collection, processing, and interpretation of the data, this limitation still prevails.

Statement of the Hypotheses

The general relationships with which this study
is concerned is represented through the following hypotheses. They are based upon the review of related literature on comparative management and the universality theory of management.

Hypothesis 1: Management philosophy of American firms operating in Iran tends to be different from the management philosophy of comparable Iranian firms in Iran.

Hypothesis 2: Firms operating in the same environment with different management philosophies tend to have different levels of management effectiveness.

Hypothesis 3: Firms operating in the same environment with different management philosophies tend to use different management practices.

Hypothesis 4: The greater the direct effect of a management practice upon the employees' value systems, beliefs, and attitudes, the less is its applicability to another environment.

Hypothesis 5: Firms operating in the same environment with different management philosophies tend to have different levels of efficiency.
A Preview to the Presentation

The following chapter presents the two schools of thought on the universal applicability of management knowledge, as well as the existing comparative management models and approaches. In Chapter III, the research methodology is stated through the presentation of an experimental model. Chapter IV provides a general background of Iranian environment and identifies the dominant socio-cultural, political-legal, educational, and economic factors of Iran, so that the reader may acquire a better perception and appreciation of the contents of the succeeding chapters.

Chapter V is devoted to analysis of management philosophy and management effectiveness of U. S. subsidiaries and local firms in Iran. This is followed by a general description of management practices of American and Iranian firms in chapter VI. Chapter VII contains the conclusions, implications, and recommendations of this inquiry.
CHAPTER II

REVIEW OF LITERATURE

The Universality Theory of Management

There exist two schools of thought on the universal applicability of management knowledge. Some scholars contend that management is a universal process and, thus, is transferable across cultures. On the other hand, some authors argue that environmental factors, in a socio-cultural milieu, impede the effectiveness of management to the extent that they restrict its universal applicability. A survey of some of the writings and inquiries on universal applicability of management theory is presented in the following paragraphs.

Arguments in Favor of Universality Theory

Fayol has been credited with being the first universalist and the founder of the process school of management thought.¹ This approach to management theory perceives management as a universal process which can best be analyzed through the identification of management

functions and principles. Furthermore, its goal has been the establishment of a conceptual framework, or skeleton, on which to build a general theory of management—along the same line as Lord Keynes' general theory of economics.² Management functions, as was proposed by Fayol, include: planning, organizing, directing, coordinating, and controlling.³ Although other writers have added or combined some of these functions, the process school still considers planning, organizing, staffing, directing, and controlling as the universal classification of management activities.

Members of the process, or universalist, school have had great interests in devising some general principles and theories of management.

In general, principles are statements of hypotheses indicating some cause and effect relationships which are valid for a sufficiently long period of time when they are utilized for making decisions. Thus, principles are truths, stating some types of relationships


between two or more sets of variables, at a given time.\textsuperscript{4}

Theory, on the other hand, is at a lower level of applicability and validity than principle. According to Homans, theory "... in its lowest form (is) a classification, a set of pigeon holes, a filing cabinet in which facts can accumulate."\textsuperscript{5}

If management principles, theories, and techniques are valid, and if they are applicable to different organizations, cultures, and social climates, then, they meet the test of universality. On the other hand, if management principles prove to be limited in their applicability to different socio-cultural milieus, they are culture bound.

Koontz and O'Donnell in their analysis of management practices have stated: "The authors have taken the position that management fundamentals--theory and principles--have universal application in every kind of enterprise and at every level of an enterprise ... (although) the elements of the external environment will differ."\textsuperscript{6}

\begin{thebibliography}{99}
\bibitem{6} Harold Koontz and Cyril O'Donnell, \textit{op. cit.}, p. 87.
\end{thebibliography}
Meggison accepts a similar point stating: "Management principles and functions are assumed to be universal and, thus, are the same whether performed in a stateside organization or in an international organization."  

Harbison and Myers, based on their analysis of management practices in several countries, have concluded that a set of management principles exist which are applicable to both industrialized and developing countries.

Newman, in his book Administration Action, writes:

Administrative skill involves mastery of five basic processes: 1) planning, 2) organizing, 3) assembling resources, 4) directing, and 5) controlling. These processes are present to a greater or lesser extent in all executive jobs, that is, in jobs at different levels and in various fields. The subject matter will vary, but the underlying processes will be similar.

A similar view is expressed by Terry, who states:

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"Since the management process is universal, what is meaningful about one manager's work applies likewise to that of all managers." 10 Another writer has concluded that "The idea that management is a universal process fundamental to all organized activity means that transferability exists, not merely among business activities but also from business organizations to charitable groups and nonbusiness organizations." 11

Theo Haimann has expressed his views in these words: "The principles of management are universal. In other words, they are applicable to any kind of enterprise wherever there is coordinated effort of human beings." 12

Bendix, based on an empirical study, has concluded that there are many common elements between American management practices with those of British, Russian, and


East German.  

The findings of Richman, on Soviet management, indicate that managers in the Soviet Union were essentially utilizing the same functions—planning, organizing, coordinating, directing, motivating, staffing, and controlling—as are practiced by American managers.  

Haire, Ghiselli, and Porter, based on an extensive study in fourteen countries, have stated that there exists a great deal of similarity in the way managers in different socio-economic environments perform their basic functions.

Muse, based on a study of 72 social fraternities, has stated that "... there was a significant positive relationship between the degree to which there organizations used selected managerial practices and the success ranking they achieved." He goes on to conclude: "This may lend


some credence to the belief that management principles or practices have universal application.  

Arguments Against the Universality Theory

Gonzalez and McMillan have stated that there is a specific American management philosophy based on the unique system of attitudes, values, approaches, and principles used by American executives in handling their operations. This unique philosophy, they have argued, is limited in its applicability to other cultures and economies. Therefore, if this philosophy of management is only valid and applicable for a given culture, then it can not be universal.  

Brannen and Hodgson have noted that since the dominant set of attitudes, values, approaches, and percepts of societies at various stages of economic development tend to vary, "... management techniques which function admirably to optimize profits when applied in industrially advanced countries do not always produce comparable results when applied in the preindustrial areas of the world."  

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17 Ibid.
Farmer and Richman feel that traditionally most studies of management and organization have developed in the contest of a single environment. Thus, so far that this external environment is the same for all firms, this is a valid approach. However, when the environment differs significantly, present theory is inadequate for environmental analysis.  

Dale has argued against the doctrine of universality in management based on two premises. First, on the "a priori ground," he stated that no one individual will have the adequate expertise to administer organizations with widely diverse philosophies. For instance, the three best known managed organizations (according to Jackson Martindell) were the Roman Catholic Church, Standard Oil Company of New Jersey, and the Communist Party. Based on the Universality theory, then, an executive "merry-go-round" of the chief executives of these three organizations was possible. Since this appears to be false, then

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transferability did not apply. Second, actual experience does not support the idea of the universal manager. For instance, businessmen experience a great deal of frustration when they enter government. Also, military men who assume business positions are chosen for their ability to secure government contracts and not because of their expertise in administration.  

Negandhi and Estafen have approached the universal theory of management on three sets of variables with which they defined a firm. These variables are management philosophy, management process, and managerial effectiveness. They have argued that, in different countries, the environment and philosophy determine the managerial processes and thus the managerial effectiveness.

Oberg has stated that cultural differences from one country to another are more significant in management effectiveness than many writers seem to recognize. And, if universal principles exist, they need to be tested in

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22Ibid., pp. 26-27.


24Ibid., p. 314.
some rigorous cross-cultural studies. If management principles are universal, they must meet the challenge of different socio-cultural climates.\(^{25}\)

**Comparative Management Theory**

In disciplines such as economics, sociology, psychology, literature, law, education, and religion the comparative method has been studied extensively through research. In management, however, formal studies in the area of comparative method is more recent.

In the past decade, the greater involvement in international affairs, the rapid growth of multinational corporations, and the increasing interest in the development of general or universal theories of management have created the need, and at the same time have provided the major impetus, for comparative management studies.

**What is the Comparative Approach?**

In its scientific form, the term comparative approach implies "the systematic detection, identification, classification, measurement, and interpretation of simi-\(^{25}\)Winston Oberg, "Cross-Cultural Perspectives on Management Principles," Academy of Management Journal, Volume 6, Number 2 (June, 1963), pp. 129-143.
larities and differences among phenomena."\textsuperscript{26}

A comparative management theory attempts to analyze and synthesize administrative concepts from cross-cultural, cross-institutional, and cross-disciplinary perspectives. Heavily influenced by General Systems Theory and open systems concept in management, the comparative approach attempts to find a broader base for management knowledge in diverse fields such as education, government, industry, religion, and other organized endeavors.\textsuperscript{27}

As a legitimate field of inquiry, comparative management may be defined as "the study and analysis of management as a process and a philosophy in all managerial situations and in all countries where further industrialization is pursued as an integral part of economic development."\textsuperscript{28} Two prominent scholars of comparative management have defined the field as dealing with the

\begin{itemize}
\end{itemize}
problems of managerial performance and managerial efficiency in various countries.\textsuperscript{29}

Although the fields of international business and comparative management are interrelated and have overlaps, one needs to distinguish between the two. In general, international business focuses its attention on management of multinational corporations operating on a global basis. In this sense, international business primarily deals with movements of business activities which cross national boundaries. These business activities include goods, services, capital, technology, and personnel.\textsuperscript{30} On the other hand, comparative management primarily deals with identification of similarities and differences of management practices in different countries.

It is natural that ambiguities, differences of opinion, and semantic problems emerge, as a new field of study develops. This has certainly been the case in comparative management. That is, in spite of the fact that comparative management, as a separate field of


inquiry, is relatively new, there already exists a considerable diversity in approaches, orientations, and conceptual frameworks for analysis. Schollhammer in an article entitled "The Comparative Management Theory Jungle," has analyzed this situation.\textsuperscript{31} He attempted to examine the roots of diversity by grouping and identifying the various major contributions to comparative management into four categories. They are: the socio-economic approach, the ecological approach, the behavioral approach, and the eclectic-empirical approach.\textsuperscript{32} These four approaches to comparative management theory are briefly identified in the following sections.

**The Socio-Economic Approach to Comparative Management**

This approach to comparative management focuses on management as the single most important factor in economic growth and development. In this sense it has a macro perspective and approaches management as an economic resource--in addition to land, labor, and capital--in the development process of a nation.


\textsuperscript{32}Ibid.
The founders of the socio-economic approach, who first established the premise of perceiving management as a "change agent" and "catalytic agent" in the process of industrialization and economic growth, are Fredric Harbison and Charles A. Myers.33 Their fundamental assertion is that "Industrialism is an almost universal goal of modern nations. And the industrialization process has its set of imperatives..." This set of imperatives is what the authors call "the logic of industrialization." Moreover, one of the imperatives of the logic of industrialization is the quantity and quality of managers in a society. That is, they are the ones "who create and control the organization and institutions which modern industrialism require... (and) build and manage the enterprises which combine natural resources, technology, and human effort for productive purposes."34

Harbison and Myers then propose a model to analyze management from three separate perspectives: as an economic resource, as a system of authority, and as a class or elite group. The first perspective is oriented

34 Ibid.
on analyzing, both qualitatively and quantitatively, the managerial know-how of a society. The second perspective concentrates on how managers acquire, maintain, and exercise authority. The third perspective focuses on the socio-economic status of management class.\textsuperscript{35} This model has been utilized in several studies to identify and analyze the characteristics of management situation in different countries.

Another major contribution to comparative management theory using the socio-economic approach was made by Professor David McClelland. In his book \textit{The Achieving Society}, McClelland focused on the psychological factors which are related to the economic development.\textsuperscript{36} Elaborating on entrepreneurs roles to economic development, he has identified the need for achievement (n-achievement) in a society to be positively correlated to rapid economic growth. Moreover, based on a historical analysis of different societies (i.e., ancient Greece, Spain in Middle Ages, England, Sweden, Russia, and United States), he has concluded that high n-achievement emerged

\textsuperscript{35}\textit{Ibid.}, pp. 117-133.

in a culture some 50 years before the society experienced a rapid economic growth.\textsuperscript{37}

The Ecological Approach to Comparative Management

Traditional management literature generally takes a closed systems perspective of organizations. That is, the concentration is on optimization of available resources available to an organization. The external environment is assumed to be given and beyond the scope of management theory. However, from an open systems perspective, no organization can exist entirely divorced from its environment, and firms are significantly influenced—and to some extent influence—the nature of their environment.

The central theme of the ecological approach to comparative management is that since the external environment directly influences managerial effectiveness, it is very significant to identify the key environmental factors and the nature of their impact. The ecological approach can be said to be fathered by Professors Richard Farmer and Barry Richman.\textsuperscript{38} Their model consists of

\textsuperscript{37}\textit{Ibid.}, pp. 373-376.

\textsuperscript{38}Richard N. Farmer and Barry M. Richman, \textit{op. cit.}, pp. 55-68.
five building blocks: external constraints, elements of management process, management effectiveness, firm efficiency, and system efficiency. The cause and effect relationships among these variables are depicted in Figure 1.

In this model, all managerial functions are identified and tabulated and the effects of any external environmental factors upon these functions are hypothesized. The strategy is to somehow quantify these effects so that the overall impact of environmental factors on managerial functions would be the summation of all the effects under consideration. Using this model, it is possible to take any functional variable and estimate the effect of each environmental constraints upon it. The summation of the total effects gives an indication of how any managerial function is influenced by the total environment.

Table 1 shows the relationship between management functions and environmental constraints. Not all the constraints affect all the managerial processes, the X's in Table 1 indicate which managerial processes and con-

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39Ibid., p. 35.
Figure 1. Farmer-Richman model for analyzing comparative management

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<th>Selected Critical Elements of the Management Process</th>
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<th>C&lt;sub&gt;4&lt;/sub&gt; Educational</th>
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Table 1  Selected Critical Elements of the Management Process and the Impeding Environmental Constraints in Iran

Where:

$B_1$ Planning Function
   1. Time horizon of plans and planning
   2. Flexibility of plans

$B_2$ Organizing Function
   1. Degree of centralization or decentralization of authority

$B_3$ Staffing Function
   1. Nature and extent of training programs
   2. Layoff and dismissal of personnel

$B_4$ Directing Functions
   1. Degree of authoritarian vs. participative management
   2. Supervisory techniques used

$B_5$ Controlling Function
   1. Degree of looseness or tightness of control over personnel

$C_1$ Political-Legal Constraints
   1. Import quota limitations
   2. Labor laws

$C_2$ Sociological-Cultural Constraints
   1. View of authority and subordinates

$C_3$ Economic Constraints
   1. Lack of economic stability (inflation)
   2. Lack of social overhead capital (socio-economic information)

$C_4$ Educational Constraints
   1. Educational philosophy
   2. Lack of qualified managers and skilled workers
straits are related. The external factors are placed horizontally and denoted by C's together with their respective subscripts. The relevant critical elements of the management process are listed vertically and are denoted by B's and their respective subscripts. Farmer and Richman have used this model to evaluate the relative impact of the various environmental constraints on the functions of management in several countries.40

In this model, managerial effectiveness is defined as how well the objectives of an organization are achieved by managers. Firm efficiency is given by outputs of an organization over its inputs. The model then moves from a micro level to a macro level by indicating that system efficiency (aggregate efficiency of a country) is determined by aggregation of individual firm efficiencies within the system. In other words, efficiency of any system is determined by what happens in every subsystem (productive enterprises) within the system. System efficiency can be measured by indicators such as gross national product, per capita, rate of growth of gross

40See Richard N. Farmer and Barry M. Richman, International Business: An Operational Theory (Homewood, Ill.: Richard D. Irwin, Inc., 1966), pp. 67-93, for an example of how this model is used.
national product, and others.\textsuperscript{41}

The \textbf{Behavioral Approach to Comparative Management}

This approach to the analysis of comparative management is based on focusing on the behavioral patterns of managers in different cultures; measuring their attitudes and values; and studying their relationships with their superiors, subordinates, and peers in the organization. Consequently, in contrast to the ecological approach with its macro perspective, the behavioral approach has a micro orientation.

A conceptual framework to comparative management, with a behavioral orientation, is a model proposed by Professors Anant R. Negandhi and Bernard D. Estafen.\textsuperscript{42}

The model essentially consists of setting up Latin square research design to permit a three way comparison between parent companies in the United States with their subsidiaries in a host country and with locally owned and operated firms in the host country. The four variables of the model (see Figure 2) are: management philosophy,

\textsuperscript{41}Ibid.

\textsuperscript{42}Anant R. Negandhi and Bernard D. Estafen, "A Research Model to Determine the Applicability of American Management Know-How in Different Cultures and/or Environments," \textit{Academy of Management Journal}, (December, 1965), pp. 319-323.
MANAGEMENT PHILOSOPHY
Management attitudes toward
Employees
Consumers
Suppliers
Stockholders
Government
Community

ENVIRONMENTAL FACTORS
Socioeconomic
Educational
Political
Legal

Affect

MANAGEMENT PROCESS
Planning
Organizing
Staffing
Directing
Controlling

Affect

MANAGEMENT EFFECTIVENESS

Figure 2. Negandhi-Estafen model for analyzing comparative management

management process, management effectiveness, and environmental factors.

Negandhi and Estafen have considered management philosophy as being the product of culture and environment. Moreover, they have defined it, in a restrictive sense, to be the predominant attitudes of managers towards consumers, employees, government, community, unions, suppliers, distributors, and owners. Thus, from this perspective, management philosophy is represented through management policies which guide the decision making process of a firm.

The management process, in this model, constitutes management functions designed to accomplish the goals of the organization. Negandhi and Estafen accept Koontz and O'Donnell's classification of management functions in terms of: planning, organizing, staffing, directing, and controlling. Management effectiveness is expressed in terms of measuring six elements. They are: growth in net profit, growth in profit, growth in market share, growth in price of stock, employee turnover, and con-

sumer ranking. In an experiment on worker's responses to different styles of leadership, Professors Williams and White have found that the attitudes of Peruvian and American workers differ significantly to different styles of supervision. Their study indicated that, in general, Peruvian workers tend to respond more positively to close supervision than their American counterparts.

A noteworthy study, with a behavioral orientation, on the transfer of management skills and knowledge is by Professor Megginson. As rationale for this approach, Professor Megginson has declared that a manager's effectiveness, in a culture other than his own, is a function of three variables. They are: 1) "The manager's technical proficiency in performing the art and science of management;" 2) "individual's managerial philosophy;" and 3)

45 Lawrence Williams, William F. White, and Carlos Green, "Do Cultural Differences Affect Worker's Attitude?," Industrial Relations, Volume 15, Number 3 (May, 1966), pp. 67-93.
"the general environment and the particular work 'climate' in which the manager operates."

His research findings are derived from interviews and questionnaire replies by over 200 executives and consultants in 26 countries. The major hypotheses of the study are that: 1) an individual manager's effectiveness is a function of his knowledge of, and his ability to adjust to, a given culture in which he performs as a manager; and 2) the greater the diversity between an individual manager's own cultural heritage and the second culture in which he performs the managerial functions the greater will be the impact of the second culture on his effectiveness.47

A comparative model which distinguishes between managerial and nonmanagerial activities as casual factors affecting enterprise effectiveness is by Harold Koontz.48 The nonmanagerial activities, in this model, are the specialized areas of enterprise operation concerning marketing, engineering, production, and finance. The

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47Ibid.

difficulty with this model is the problem of separating the impact of managerial and nonmanagerial factors on enterprise effectiveness. In contrast to the Negandhi-Estafen model, managerial attitudes are excluded in this model and are considered to be some resultants of cultural environment. The external environmental factors are identified to constitute a set of independent variables. This model is graphically depicted in Figure 3.

The Eclectic-Empirical Approach to Comparative Management

The contributions of the majority of scholars and researchers to the field of comparative management can be identified under this category. This approach to comparative management is based on some form of empirical study which compares and analyzes managerial situations in various countries. Furthermore, researchers adopt a framework which best facilitates the practical aspect of their investigations. Considering the fact that comparative management is rather a new discipline, the eclectic-empirical approach has helped to generate empirical data
Figure 3. Koontz model for analyzing comparative management

for further generalizations.\footnote{Hans Schollhammer, \textit{op. cit.}, pp. 90-91.}

There exist a large number of studies which can be qualified under the eclectic-empirical category. However, only a small sample of these studies will be mentioned here as prototypes of this approach to comparative management.

A very perceptive study of social organizations in Japanese factories as compared with that in the United States is by Abegglen.\footnote{J. C. Abegglen, \textit{The Japanese Factories: Aspect of It's Social Organization} (Glencoe, Ill.: The Free Press, 1960).} His findings indicate that there were two major differences between the social organizations of the factories in Japan and in the United States. The first was that in Japan, in contrast to the U. S., there did not exist a noticeable differentiation between the factory organization and other established social groupings. Second, in contrast to the social atmosphere of Japanese factories, in American factories there existed a high degree of individualization and impersonalization of relationships.

Another study compared the management practices of 11 American subsidiaries in Germany with comparable
locally owned firms. The conclusion of the study indicates that:

There are many differences in approach between American-owned firms, and local industries. Where American firms use a controller, German companies use a team of specialists with technical, marketing, and accounting backgrounds; where American firms press public relations, German firms leave well enough alone. Where several subsidiaries practice delegation of authority, it is local practice to use close supervision.

Professor McCann's comparative management study deals with the management philosophies in the United States and Latin America. He focuses on the decision making aspect of managerial philosophy by discussing the question of why the scientific thinking and analytical approach to problem solving has been lacking in approaching management in Latin America. He ascribes this phenomenon to "cultural and personality characteristics which lead persons to rely on intuition as a basis for decision making." Within this context, he then explores


52 Ibid., pp. 31-32.

the premise that in Latin America the tendency is toward action based upon emotions and a lack of objectivity. Furthermore, where "In the United States, management is considered to contain scientific components, in Latin America, management generally is considered solely an art."54

Bass and Thiagarajan's comparative study on perceived amount of risk taken in choosing among different alternatives between Indian and American managers indicated that, in general, Indian managers tend to prefer high risk with ideal outcome while American managers tend to prefer moderate risk with moderate outcome.55

In another study, Joseph Berlinger has compared material incentives for managers, recruitment, education, career choice, competition among careers, and decision making in the Soviet Union and the United States.56 His major conclusion is that since American managers

54 Ibid.


operate in a different socio-economic environment, their practices tend to be different from those of Soviet managers. However, in those areas in which the operating characteristics of U.S. economy approximates the Soviet economic life, there exists similarities of behavior between Soviet managers and American managers. For example, "The separation of management and ownership characteristic of the modern corporation leads to conflicts of interest between managers and stockholder-owners, and management's pursuit of its own interest leads to activities similar to those of the Soviet manager striving to defend his interests against those of the owner-state."\(^57\)

A somewhat similar study is by David Granick in which he compares and analyzes managerial behaviors in France, Belgium, England, and Germany.\(^58\)

Summary and Conclusion

Traditionally, most studies of management concepts have been done without proper attention to the external

\(^{57}\)Ibid., p. 376.

environments. In other words, the approach has been to assume the external environmental factors as "given" fixed parameters and consequently treat them as constants. This approach is valid as long as the external environment is basically the same for all firms under consideration. However, this approach falls short of adequacy when one is involved in comparing managerial effectiveness and efficiency between firms which are operating in different countries with widely different social, political, economic, technological, or ethical environments.

There exists a variety of approaches to comparative management theory, each different in a particular way from those of other approaches. More specifically, the diversity of these approaches lies on the assumptions made about the cause and effect relationships between culture and attitudes, attitudes and behavior, behavior and effectiveness, and effectiveness and efficiency. Moreover, in analyzing the variety of approaches to comparative management theory, the semantic problem stands as a constant source of mental entanglement in the field. This is so because different researchers have used and defined key words (i.e., management philosophy, management know-how, management practices, management effectiveness,
and so forth) differently. Thus, there is the need for clarification and uniformity of semantics.

There is a significant amount of interest in the existence of general or universal theories in management. The doctrine of universality implies that management functions and principles are universally applicable to all organized endeavor, although there are also disagreements on the possibility of such theories. The development of such theories, in any case, requires many comparisons in different environments.

Putting the master issue in the paradigm form, the universality theory of management finds its genesis on the position that management contains scientific guides, laws, or principles subjected to the tests of logic and facts of life. Most academicians and researchers agree that although presently there does not exist a general theory of management, there exists a logic of management organized around major and subordinate theories. There also exists a general consensus that management is partly a science and partly an art. Thus, from the point of view of transferability and universality of management concepts, the implication is to make a start in separating science from art in the field. From this perspective, comparative management studies have the potential of making some
significant contributions to the field of management theory.

The field of comparative management theory has its interest rooted in managerial performance in various countries. The paramount goal in almost all developing nations is toward industrialization and economic growth. Regardless of the types of outputs that a society desires, whether in the form of capital or consumer goods, the objectives can only be achieved through enhancement of productivity and economic efficiency.
CHAPTER III

RESEARCH METHODOLOGY

Research Model

The research design used in this inquiry is a modified version of a model for comparative studies developed by Professors Anant R. Negandhi and Bernard D. Estafen. This model contains six variables: management philosophy, management process, management effectiveness, environmental factors, firm efficiency, and system efficiency. The relationships among these variables are exhibited in Figure 4. In this model, management philosophy and environmental factors are the independent variables, management process is the intervening variable, management effectiveness is the dependent variable, and firm efficiency and system efficiency are the end-result variables.

This model suggests the investigation of the relationship between some chosen variables using the classic

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MANAGEMENT PHILOSOPHY
Management attitudes towards:
- Employees
- Consumers
- Suppliers
- Stockholders
- Government
- Community

ENVIRONMENTAL FACTORS
- Socio-cultural
- Educational
- Political-legal
- Economic

MANAGEMENT PROCESS
- Planning
- Organizing
- Directing
- Staffing
- Controlling

Affect

MANAGEMENT EFFECTIVENESS
Determine

FIRM EFFICIENCY
Determine

SYSTEM EFFICIENCY

Figure 4. The Comparative Model of the Study

experimental design. This allows the isolation of the effects of environmental factors and management philosophy on management process, management effectiveness, and firm efficiency. The frame of reference of this study is from outside the firm into the firm. That is, the concentration is on evaluating the effects of independent variables (management philosophy and environmental factors) on the intervening variable (management process); dependent variable (management effectiveness); and the end result variables (firm efficiency and system efficiency).

The research model utilized in this study rests on two basic assumptions:

(1) Management effectiveness in a given industry with a given technical know-how is dependent upon the way in which the manager carries out the process of planning, organizing, staffing, directing, and controlling . . . . (2) The management process is dependent on both the external environmental factors and the management philosophy.2

To facilitate exposition, as exhibited in Table 2, management philosophy is represented by X, management process by P, and management effectiveness by Q. Therefore, $X_1$ denotes the management philosophy of American firm operating in the United States and Iran; whereas, $X_3$ denotes the management philosophy of Iranian firm operating in Iran.

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2Ibid, pp. 311-312.
<table>
<thead>
<tr>
<th></th>
<th>Management Philosophy</th>
<th>Management Process</th>
<th>Management Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. firm in U.S.</td>
<td>$X_1$</td>
<td>$P_1$</td>
<td>$Q_1$</td>
</tr>
<tr>
<td>U.S. firm in Iran</td>
<td>$X_1$</td>
<td>$P_2$</td>
<td>$Q_2$</td>
</tr>
<tr>
<td>Iranian firm in Iran</td>
<td>$X_3$</td>
<td>$P_3$</td>
<td>$Q_3$</td>
</tr>
</tbody>
</table>

It is assumed that the management philosophy of the American subsidiary operating in Iran is the same as that of the parent company in the United States. Moreover, management process of the American firm operating in the United States is denoted by $P_1$ and its management effectiveness by $Q_1$; management process of the American firm operating in Iran is denoted by $P_2$ and its effectiveness by $Q_2$; and the management process of the Iranian firm in Iran is denoted by $P_3$ and its effectiveness by $Q_3$.\(^3\)

Using this model, the effects of one set of variables on another can be measured in a systematic fashion. For example, the difference between $P_1$ and $P_2$ is a result of the difference between the different environments of these firms in the United States and Iran; while the difference between $P_2$ and $P_3$ is attributed to difference in management philosophies of these firms in Iran. Moreover, if it is found that the U.S. firm operating in Iran is more effective than the Iranian firm in Iran; then it can be implied that $P_2$ (the management process used by the American company in Iran) is more effective than $P_1$ (the management process used by the domestic company in Iran). Thus, the Iranian firm should adopt $P_2$ if it aspires to enhance its level of

\(^3\)Ibid, p. 315.
effectiveness. However, in order to adopt P2, the Iranian firm may need to change its philosophy from $X_3$ to $X_1$. In addition, in order to ascertain the impact of specific external environmental factors on management process, the difference between $P_1$ and $P_2$ needs to be analyzed and traced back to the differences between the existing environmental factors.4

Definition of Concepts Used

In the course of analyzing and comparing the various approaches to comparative management theory, it becomes clear that the semantics problem is rather severe in the field.5 For example, the concepts of "management philosophy," "management know-how," "management practice," "management principle," and "management effectiveness" are often left undefined, or are not defined with a standard meaning. Thus, on the topic of transferability of management, one is struck by the confusion of what actually is being transferred—whether it is management philosophy, management know-how, management principle, or some other concept. In this

4Ibid.

research, an attempt has been made to define the variables of the study in operational terms and utilize them consistently throughout the inquiry.

Management Philosophy

The term philosophy is derived from the Greek word meaning a lore of knowledge. In a broad sense, it includes five subdivisions: metaphysics, aesthetics, epistemology, ethics, and logic. Metaphysics deals with the nature and the theory of reality. Aesthetics is the study of art and theories of what is considered beautiful in nature. Epistemology deals with the theory of knowledge. Ethics is concerned with the theory of values and their justifications. And, logic deals with the theory of valid reasoning.6

The aspect of philosophy which has been utilized to a greater extent in making reference to management philosophy is ethics. Oliver Sheldon was one of the first pioneers in management who explicitly presented a philosophy of management.7 He called for service to the community as the

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7 Oliver Sheldon, The Philosophy of Management (London: Sir Isaac Pitman and Sons Ltd., 1923).
basis for management philosophy:

Industry exists to provide the commodities and services which are necessary for the good life of the community, in whatever volume they are required. These commodities and services must be furnished at the lowest prices compatible with an adequate standard of quality, and distributed in such a way as directly or indirectly to promote the highest ends of the community.8

R. C. Davis presented a somewhat broad definition in his book The Fundamentals of Top Management:

A business philosophy is a system of thought that explains basic business problems and supplies the basis for an intelligent approach to their solution. The philosophy of management is obviously the philosophy of business. . . .9

Recently, many authors have raised moral and ethical questions in proposing a "social responsibility ethic" as a managerial philosophy. According to this doctrine, managers must broaden their perspectives to include the welfare of all segments of the society—consumer, worker, community, supplier, dealer, and government as well as stockholders—in establishing their overall objectives and strategies.10

8Ibid., p. 283.


In this study, management philosophy is considered to be the implied and expressed attitudes of managers toward employees, consumers, stockholders, suppliers, distributors, government, and community. In this sense, it is considered as being the product of culture and environment and, thus, is treated as an independent variable in the research model.

Management Process

The management process constitutes management functions designed to accomplish the goals of organization. Management functions, as was proposed by Fayol, include: planning, organizing, directing, coordinating, and controlling. Koontz and O'Donnel have modified these functions in terms of: planning, organizing, staffing, directing, and controlling. In this study, management process refers to the way managers perform their functions of planning,

11 Anant R. Negandhi and Bernard D. Estafen, op. cit., p. 313.
organizing, staffing, directing, and controlling.

**Management Effectiveness**

Management effectiveness, as can be seen in Figure 4, is the result of interaction between management process and environmental factors. Management philosophy does not directly affect management effectiveness but it indirectly influences it by directly affecting management process.

In this study, management effectiveness refers to the extent to which managers are able to develop and maintain an effective organization. The indicators used to measure the level of management effectiveness are: worker turnover, utilization of high-level manpower, ability to attract and retain high-level managerial manpower, employee morale, absenteeism, and organizational ability to adapt to changing environment.\(^{14}\)

**Firm Efficiency**

When an organization is viewed as an open and dynamic social system, there is a continuing process of inputs, transformation, and outputs taking place by means of the social

entity called organization. The overall organization efficiency (or firm efficiency), in an engineering sense, can be conceptualized as:

\[ E = \frac{O}{I} \]

where \( E \) is efficiency, \( O \) is outputs, and \( I \) is inputs. From an economic perspective, inputs consist of land, labor, capital, and management. Johnson, Kast, and Rosenzweig have classified inputs to an organization in terms of information, materials, and energy in relationship to time and space.\(^{15}\)

In view of the fact that contemporary economies are tending to have service orientation, the latter classification tends to represent factors of the production more realistically than the classical classification.

Organizational outputs typically take the form of anticipated goods and services; as well as the unanticipated

outputs in the form of pollution, waste, and others.
From this perspective, an industrial organization is an
economic system which mobilizes scarce resources (infor-
mation, materials, and energy) from the society, allocates
and utilizes these resources, and supplies the society
with some outputs.

In this study, firm efficiency refers to the overall
efficiency of an enterprise expressed in terms of outputs
over inputs. The indicators used to measure firm efficiency
are: net profit, growth in profit, market share in the
main product line, growth in market share, market price of
company's stock, growth in price of stock, and growth in
sales.

System Efficiency

System efficiency refers to the national efficiency
of a country measured in terms of the amount of outputs it
produces from its inputs. In other words, system efficiency
is an indicator of the productivity of human and non-
human resources of a given country. Thus, for a country
to become more efficient, the country must produce more
outputs with the same level of inputs or produce the same
level of outputs with less inputs.

The indicators used to measure system efficiency in a
given economy in comparison to other economies is the gross
national product per capita plus a weighted value of the rate of growth in gross national product per capita over a fairly long period of time. Moreover, as Figure 4 indicates, system efficiency is a function of aggregate firm efficiencies, or:

\[ Q = f(E) \]

where \( Q \) is system efficiency and \( E \) is firm efficiency.

That is, in order for a society to become more efficient, in the sense of optimizing its outputs with respect to its available inputs, it is necessary that productive enterprises of the society also become more efficient. In other words, in order to optimize the productivity and efficiency of a system, one needs to improve the productivity of the subsystems (productive enterprises) of the total system (country).

In this study, the indicators used to measure system efficiency are: gross national product, per capita income, annual rate of growth in gross national product, and annual rate of growth in per capita income.

**Environmental Factors**

In every society, no organization can exist entirely divorced from its environment, and firms are significantly influenced, and to some extent influence, the nature of their
environment. An organization can be conceived to have two types of relations with its environment. First, the environment imposes some type of constraints on the internal activities of an organization. Second, an organization must not only respond to the environmental constraints but change and readjust its structure and strategies to cope more effectively with changes in the external environment.

Since environmental factors, as shown in Figure 4, directly influence management process and management effectiveness; it is very significant to identify the key environmental factors and the nature of their impact. The ecological approach to comparative management has this prime objective of investigating the interaction of environmental factors and management practices.16

In this study; the environmental factors which were identified to be most critical in influencing management process and management effectiveness include: socio-cultural, educational, political-legal, and economic factors of the general milieu in which the firm operates. The primary concern is not to study a detailed analysis of these variables, but rather to focus on the portions of these variables which

bear directly and significantly on management process and management effectiveness. As a matter of fact, it is apparent that most of these variables are interrelated. For example, the literacy level is directly related to the economic and socio-cultural factors. The interrelationships among these variables are the major determinants of how individual firms perform economically.17

Research Sample

Upon arriving in Iran, 40 firms were contacted and were asked to participate in the research project. Subsequently, some of the firms declined to participate and some others were dropped because of the problem of matching a local Iranian firm against an American subsidiary operating in Iran. The final sample consisted of two groups of firms operating in Iran.

One group consists of ten U.S. subsidiaries operating in Iran, and another group is composed of ten comparable local firms. An attempt was made to match these ten pairs of firms on the basis of products and technology as much as possible. The firms operate in the following industries:

17 For a more comprehensive discussion of this issue see Richard N. Farmer and Barry M. Richman, Comparative Management and Economic Progress (Homewood, Ill.: Richard D. Irwin, Inc., 1965), pp. 30-32.
petroleum, consumer products, engineering, construction, electrical-industrial, electrical-consumer, and supportive services. Additional data on the industrial classification of these firms are presented in Table 3.

Methods of Data Collection

The main source of gathering information was a personal interview with top management personnel in the company. To conduct the interviews in a consistent manner, a questionnaire was utilized as the principal tool during the course of each interview. The questionnaire—which has been grouped according to management philosophy, management process, management effectiveness, and firm efficiency—is reproduced in the Appendix.

Generally, the key executives of the firms' under study were interviewed. These key executives included presidents (normally referred to as managing directors in Iran), vice presidents (normally referred to as deputy managing directors), and executives in the functional areas of production, marketing, and finance. These interviews took place in the administrative offices, home offices, plants, or branch offices of the firms under the study.

In addition to interviewing executives, published
**TABLE 3**

*Industry Classification of the Firms in the Sample*

<table>
<thead>
<tr>
<th>Industry Group</th>
<th>Number of Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>American</td>
</tr>
<tr>
<td>Engineering</td>
<td>2</td>
</tr>
<tr>
<td>Construction</td>
<td>2</td>
</tr>
<tr>
<td>Petroleum</td>
<td>2</td>
</tr>
<tr>
<td>Consumer Products</td>
<td>1</td>
</tr>
<tr>
<td>Electrical-Industrial</td>
<td>1</td>
</tr>
<tr>
<td>Electrical-Consumer</td>
<td>1</td>
</tr>
<tr>
<td>Supportive Services</td>
<td>1</td>
</tr>
</tbody>
</table>
materials supplied by companies such as operating manuals, handbooks, pamphlets on personnel policies, organization charts, personnel appraisal forms, and other written documents were also utilized as a source of information. And, these written documents proved to be a valuable cross checking reference to answers given to some specific questions during the interview.

Finally, information and data on the socio-cultural, political-legal, educational, and economic environments of Iran were gathered through extensive library research. Moreover, a number of agencies of the Iranian government also lent their kind assistance in providing data on Iran's fifth plan and the government's overall economic and social policies.

Technique of Data Analysis

Because of the nature of the study and the research design, the resulting data gathered is predominately qualitative. Thus, an attempt was made to codify the data as much as possible. Some of the variables of the study (i.e., management philosophy, management effectiveness, firm efficiency, and system efficiency) lend themselves nicely for codification and quantification. Other variables of the study (i.e., environmental factors, and management process),
however, are predominately qualitative and hard to quantify.

Correlation analysis and analysis of variances were used to test the first and second hypotheses of the study. To facilitate the calculation of data, the utilization of a computer were undertaken.
CHAPTER IV

ENVIRONMENT OF IRAN

Introduction

Iran descends from the ancient kingdom of Persia. The original Persians were one branch of the Aryans who migrated from Europe about 200 B.C. and settled in the western part of the Iranian plateau. The government officially changed its name from Persia to Iran in 1935.

Iran is situated in the western part of the Iranian plateau between the Caspian Sea and the Persian Gulf. It shares borders with the U.S.S.R. in the north, Afghanistan and Pakistan in the east, and Turkey and Iraq in the west. Iran covers an area of 636,000 square miles roughly equivalent to the combined areas of Texas, New Mexico, Arizona, and California.

The topography of Iran features a series of plains, highlands, and salt deserts surrounded by a rugged mountain rimland. Iran is located in the temperate zone and has a continental climate with hot summers and cold winters. Thus, it has a fairly well defined change of seasons. In summer, the temperature in the interior rises possibly higher than 110°F. In winter, however, because of the great
altitude of the country temperature can fall to minus
20°F. with 0°F. common in the region.

In 1973 Iran had a population estimated at 31 mil-
lion, with an annual growth rate of about 3.2 per cent.¹
There are approximately 45 people per square mile. Current
estimates suggest that some 42.7 per cent of the population
(13.3 million) are living in urban areas and 57.3 per cent
(17.7 million) in rural areas.² The growth rate in urban
population is estimated at an annual rate of 5 per cent and
the rural population at a rate of 1.2 per cent. This ra-
pid rate of urbanization will result a large portion of
the population to be living in the urban areas by the year
1977.

The dominant racial stock is Iranian (Aryan), much
diluted by many centuries of intermarriage with other
groups. Persian (Farsi), an Indo-European language, is
spoken by the majority of the people, and is the official
language of the state. There are various dialects of
Persian, such as the languages of the tribal Kurds, Balu-
chies, and Lurs. These local dialects are related to Old

¹Kayhan Research Associates, Iran's 5th Plan (Teh-
²Ibid
or Middle Persian. Of the total population, 98 per cent of the people are Muslims (with 95 per cent of this number belonging to the Shia sect and 5 per cent to the Sunni sect of Islam), and 2 per cent are Zoroastrians, Christians, and Jews.\(^3\)

**Socio-Cultural Environment**

Through the process of socialization an individual learns some acceptable patterns of behavior by imitation and role playing. These patterns of learned behavior are separable from innate and biological dispositions and are transmitted through culture. Barnouw has defined culture as "the way of life of a group of people, the configuration of all of the more or less stereotyped patterns of learned behavior which are handed down from one generation to the next through the means of language and imitation."\(^4\) Thus, the culture of a society provides the individual with a body of doctrines and a set of stereotypes about the world.

Societies may be differentiated based on value dis-
tribution and value systems held in different segments of the social structure. Values are here defined as "those conceptions of desirable states of affairs that are utilized in selective conduct as criteria for preference or choice or as justifications for proposed or actual behavior." In this definition, the term value is used in two ways. In one meaning, reference is made to the "evaluation" of any object. Here an object is rated without considering the standards used to make the judgement. In the second meaning, reference is made to the "criteria" or "standard" which are utilized in making the judgement. Value as criteria is closely related, conceptually and empirically, to social norms, and the criteria by which social norms may be analyzed.

In the process of identifying and analyzing the socio-cultural environment of Iran, an attempt has been made by this researcher to present some of the major values found in the Persian culture. The study of values is indicated here as a basic method for the study of the

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6 Ibid
social system in Iran. The socio-cultural values presented below do not cover all the major values found in Iran, and are not characteristic of all individuals or different segments of the social structure. Rather, the concentration is on identifying those socio-cultural values which influence the basis of conduct in administrative affairs of an enterprise—either directly or indirectly. Moreover, since contemporary Iran is going through a rapid process of industrialization and economic development, there is no doubt that given technologies and social conditions would affect some of these values in the future.

**Competitive Interpersonal Relationships rather than Cooperative Patterns of Teamwork**

This value refers to individualistic behavior in contrast to cooperation and teamwork in achieving common goals in organized endeavors. The tendency toward individualistic behavior in Iran is legendary. For example, it is a fact that Iranians have never done well in team sports which require cooperation and teamwork but have an excellent record in individual events (i.e., weightlifting and wrestling). Gastil, in his analysis of the structure of Persian language, has stated that the terms "team" and "teamwork" cause difficulty in Persians because they
perceive a "team" as "a group that fights another group" or a group of competing individuals.\textsuperscript{7}

However, the foundation of organizations resides on the concept of "synergy" or the popular expression "the whole is greater than the sum of its parts." In other words, for an organization to be effective, the relations between units must add new elements to the situation.\textsuperscript{8}

Consequently, organized behavior which depends on smooth cooperative interpersonal relations is difficult to consummate in Iran.

\textbf{Personalism}

This value refers to the emphasis on subjectivity and personal relationships rather than objectivity and pragmatic aspects of the situation. A related attitude is the insulting nature of criticism. That is, criticism (intighad) always takes a personal and private tone. As one of the Iranian psychologist has indicated, criticism which might have started on a general issue, eventually


develops into personal animosity. The manifestation of this value is the tendency of not being able to separate issues from personalities. For example, in a communication situation the tendency would be to either accept the communicator and his comments or reject him and his comments in a package form. This tendency eliminates the alternatives of accepting the communicator while rejecting his message or rejecting him personally while accepting his idea.

High Concern for Social Prestige

There is a very strong concern for the superficial achievement of man's outer-self prestige (face) in the Iranian system of interpersonal relationships and social action. It means that individuals are highly sensitive and concerned about their social prestige, and are even willing to sacrifice their true desires for the sake of enhancing their social prestige in the eyes of others. One of the implications of this value is that "rational

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considerations are often subordinated to consideration of social prestige."\textsuperscript{11}

**The Other-Worldly Orientation**

This value refers to the belief that man is incapable of affecting future events. This attitude is expressed in the popular phrase "Khoda miresanad" (God will provide), and reflects the idea that future is what God wills and, thus, is beyond the control of man.\textsuperscript{12} Consequently, individuals must act on a short term basis and adjust themselves to the constraints set by the existing order of things since future cannot be planned positively and rationally by men.

**The Conscious Past**

This value implies the unquestioning acceptance of tradition concerning standards of conduct, interpersonal relationship, and the fundamental ethical system of the society. That is, to many individuals, tradition con-


\textsuperscript{12}For a relevant discussion of "the other-worldly attitude" of the medieval period in the history of Western civilization see George A. Steiner, *Business and Society* (Second edition, New York: Random House, 1975), pp. 20-24.
tutes knowledge; consequently, mastery of the Iranian traditional knowledge has come to imply mastery of rational knowledge. Moreover, since the fundamental ethical system of the society also rests on tradition, morality and knowledge are considered inevitably intertwined.\textsuperscript{13}

Political-Legal Environment

Iran is a constitutional monarchy headed by the Shahanshah (the Monarch). The executive branch of government is headed by the Prime Minister, usually the leader of the political party. The parliament is composed of two houses. Majlis (lower house) has 268 members elected to four year terms. The Senate (upper house) has 60 members serving four year terms. Half of the Senate members are appointed by Shah, the other half is elected. Acts and legislations which are approved by both houses and receive the royal signature become law. The prime minister and cabinet ministers are subject to question by the legislative branch of the government.

The Iranian legal system is based largely on the French model, with elements drawn from the Islamic religious law. The administration of the court system comes under the Ministry of Justice. The highest court

\textsuperscript{13} Norman Jacobs, \textit{op. cit.}, pp. 151-157.
in the country is the Supreme Court.

Iran is divided into 14 provinces and six governorates. The provinces are headed by Governor Generals and governorates are administered by Principal Governors. These officials are centrally appointed. Provinces and governorates are further divided into counties, cities, districts, and villages.

In Iran, the basic legislation concerning the organization and forms of business entities is the Commercial Code of 1931. Some of the provisions of the Code dealing with corporations were revised in March 1969. According to the Commercial Code, a business entity might be organized based on nine major forms of business organization.

The Sherkat Sahami (Corporation) is an organization whose capital is divided into shares and the shareholders have a limited liability extending to the amount of their investment. Corporations are classified as either Sherkat Sahami Khas (close corporation) or Sherkat Sahami Am (open corporation). A close corporation is one which is wholly owned by its founding members. In contrast, open corporations' stock are offered and can be acquired on the open market.
Other types of business organization are Sherkat Ba Massouliat Mahdood (limited liability company); Sherkat Mokhtalet Sahami (limited partnership); Sherkat Ia-zamoni (general partnership); Sherkat Mokhtalet Qeir Sahami (partially limited partnership); Sherkat Nesbi (proportional liability partnership); and Sherkat Taavoni Towlid va Masrof (cooperative association).

The Iranian labor laws generally govern labor relations and conditions of employment. The workers' Social Insurance Act of 1960 protects workers in cases of industrial accidents, disablement, retirement, death, and job related injuries.

The Profit Sharing Act of 1964 gave a growing number of workers an opportunity to share in the net profits of business organizations. According to this act, participating companies need to negotiate a contract with their workers. The contract must be approved by the Ministry of Labor before becoming effective. The criteria used to determine individual workers' share include productivity, seniority, and the overall wage structure of the firm.

Under the Labor Law, labor unions are permitted to become organized upon registration with the Ministry of
Labor. The union, then, is recognized as the bargaining agent of the workers and can participate in collective bargaining with management for the purpose of concluding employment contracts.

Educational Environment

Iran's expenditure on education is large and has been steadily growing in recent years both absolutely and relatively. The public investment in education during the fifth plan is 4.7 percent of GNP, while the private sector investment is 3.6 percent. This represents an increase of 1.5 percent in government investment from the fourth plan, and signifies the emphasis placed on education by government. ¹⁴

In 1974, the literacy rate was placed at 23 percent, while the education rate (percent of school-age population aged 5-24 reported enrolled in school) was put at 35 percent. ¹⁵

In Iran, education is free at the elementary level

and to a great extent at the secondary level. In public universities, the majority of students pay tuition in the amount of $130 per year. In private universities, tuitions are higher. Table 4 exhibits the breakdown of pupils and schools for 1972-73 period.

In 1962, the Government established the Literacy, Health, and Development Corps. Under these programs, high school and college graduates entering the army are given six months of training and then sent to villages as grade school teachers, doctors, dentists, and agriculture extension specialists for the remainder of their military service. Since the establishment of education corps, 39,000 Corpsmen have been sent to villages raising the rural literacy rate by five per cent.16

According to Iran's Fifth Development Plan (1973-78), particular emphasis is being put upon education, with expenditures of 131.6 billion rials ($1.95 billion). Out of this total, 4.8 billion rials will come from public sector credits and the rest from private sector.17

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<table>
<thead>
<tr>
<th></th>
<th>Schools</th>
<th>Pupils (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elementary</td>
<td>15,902</td>
<td>2,963</td>
</tr>
<tr>
<td>Literacy Corps</td>
<td>12,455</td>
<td>483</td>
</tr>
<tr>
<td>Orientation Course</td>
<td>3,129</td>
<td>571</td>
</tr>
<tr>
<td>Secondary</td>
<td>2,425</td>
<td>947</td>
</tr>
<tr>
<td>Technical &amp; Vocational</td>
<td>309</td>
<td>66</td>
</tr>
<tr>
<td>Primary Teacher Training</td>
<td>87</td>
<td>26</td>
</tr>
<tr>
<td>Universities &amp; Colleges</td>
<td>158</td>
<td>115</td>
</tr>
</tbody>
</table>

During the course of the Fifth Plan, there will be a change in the basic education system. The new education system, which is gradually being implemented, is divided into three phases. In the first phase, the first five years of primary school will be free and compulsory for all school-age children (both in cities and rural areas). In the second phase, which will be implemented upon the completion of the first phase, the next three years of primary school will be compulsory. In the third phase, secondary education (four years) will be consisted of two types of education: academic secondary schools for qualified students, and technical and vocational schools in fields of agriculture, industry, and commerce. 18

According to Government estimates, Fifth Plan investments are expected to generate 2.1 million new jobs. Meantime, through the normal growth of labor force, it is estimated that 1,389,000 persons will be added to the labor market. This represents a shortage of about 700,000 persons in manpower supply. 19

The shortages are particularly severe at the

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skilled and semi-skilled worker levels, as well as top echelon cadres such as engineers, technicians, medical staff, educational staff, and administrators.

One of the causes of this shortage can be traced to the traditional educational philosophy in Iran. That is, traditionally the education system has had its emphasis on purely theoretical fields of philosophy, humanities, fine arts, and law; and not enough on applied science, administrative science, and technical training. However, in order to shift the balance toward the latter group, there is a need for change in the educational philosophy, as well as in incentives for these occupations (in terms of pay and status) to the level enjoyed by nontechnical graduates. Therefore, wage and salary differentials become an important prerequisite for an effective and balanced educational system geared toward achieving economic growth.

Economic Environment

Iran's ideology of "positive nationalism" occupies a middle position between free enterprise and public
ownership of resources on the economic continuum. That is, it has a pragmatic approach for combining and synthesizing the activities of the private sector and the public sector for developmental purposes and economic growth.\textsuperscript{20}

In Iran, basic industries such as steel, tobacco, petroleum, railroads, fertilizer, utilities, and others are nationalized. Meantime, since the government has recognized the crucial role of private entrepreneurship; incentives for private economic activities are strong. The incentives are in the form of liberal government regulations, accelerated depreciation allowances, credit facilities, tariff concessions, and tax breaks.\textsuperscript{21}

In some industries (i.e., banking, consumer goods, insurance, and agri-business) private organizations are in direct competition with public organizations, or are their partners. But, many other economic activities (i.e., construction, transport services, agriculture, housing, light industries, and health services) are in private hands.\textsuperscript{22}


\textsuperscript{21}\textit{Ibid.}

\textsuperscript{22}\textit{Ibid.}
Iran is predominantly an agricultural country. However, the industrial sector is growing at a rapid rate, as new industrial products are being produced locally for domestic consumption and export.

Iran relies heavily on oil revenues for development purposes and foreign exchange. Thus, the dramatic increase in the price of crude oil has resulted in an equally dramatic acceleration of Iran's economic development programs. Oil revenues have risen from $334 million in 1962 to an unprecedented estimated record of $21 billion in 1975. Figure 5 shows the relationships between increase in oil income and its subsequent effects on Gross National Product (GNP) and per capita Gross National Product.

Prior to the recent economic boom, Iran had an impressive record in economic growth and development. Between March 1968 and March 1972 Iran's GNP rose at an average annual rate of 11 per cent in constant money terms, while per capita GNP rose eight per cent annually in constant money terms. In 1974, Iran's real annual


Figure 5. The Relationships Between Oil Income and GNP Per Capita and GNP

GNP growth rate jumped to 41 per cent, making Iran with one of the world's fastest growing economies. Per capita GNP is expected to approach $1,800 in 1975, up 36 per cent from the previous year.\textsuperscript{25} The real GNP is estimated to exceed 40 per cent growth rate in the current Iranian calendar year (ending March 1975).\textsuperscript{26}

Fueled by skyrocketing oil prices, Iran's earnings from petroleum (which were at almost $2 billion in 1971) are expected to approach $21 billion in 1975.\textsuperscript{27} However, unlike other oil-rich nations of the Middle East which are piling up much of their new wealth in Eurodollar deposits, Iran is in the unique position with an economy that is big enough and developed enough to absorb the huge influx of oil revenues. By investing most of the oil income back into the economy, the government expects to multiply the economic impact of oil bonanza while it lasts. Meantime, it has been estimated that at the present rate of production, oil deposits in Iran will be depleted in some 30 to 40 years time. Thus, Iran's determination to build a

\textsuperscript{25}\textit{Ibid.}

\textsuperscript{26}\textit{U. S. Department of Commerce, Commerce Today, Volume 5, Number 8 (January 20, 1975), p. 30.}

\textsuperscript{27}\textit{Ibid.}
strong industrial sector is reflected in the realization that petroleum is a diminishing resource and its output and export cannot continue into the indefinite future.

The rising demand for consumer goods and food has fueled inflation. The rate of inflation in 1975 is estimated at 20 to 25 per cent, and a number of policies have been taken by government to combat it. These include price controls, liberalizing of import restrictions, and subsidizing prices for some commodities.

In Iran, economic development has been drafted and implemented under successive development plans. Responsibility for designing and administrating the development plans rests in the Government's Plan Organization. The execution of projects and programs, however, is the responsibility of appropriate government ministries.

Iran's Fifth Development Plan (March 1973 - March 1978) was approved by Majlis (lower house) and the Senate in February 1973.\(^2^8\) However, as the result of actions taken by the Organization of Petroleum Exporting Countries (OPEC) to increase the price of oil per barrel in October and December 1973, anticipated oil revenues were revised from $24.6 billion to a new figure of $98.2

\(^{28}\)The Iranian year runs from March 21 of one year to March 20 of the following year. The Fifth Development Plan runs from the first day of 1352 (March 21, 1973) to the last day of 1356 (March 20, 1978).
billion in the Fifth Plan period. Consequently, in mid-1974 there was a revision of all sectors of the Fifth Plan with emphasis on increased spending on defense, infrastructure, social welfare, and public administration.

The revised Fifth Plan calls for a total fixed investment--by both the private and public sectors--of 4,698.8 billion rials (69.6 billion). Public sector accounts for 3,118.6 billion rials ($46.2 billion) and the private sector accounts for 1,580.2 billion rials ($23.4 billion) of the total fixed investment under the Fifth Plan. Consequently, the public sector constitutes 66.4 per cent of the total Fifth Plan fixed investment and the private sector accounts for the remaining 33.6 per cent.

The public sector grew at the rate of 14.6 per cent and the private sector at the rate of 12.9 per cent during the Fourth Plan period. However, during the Fifth Plan, the private sector will have a growth rate of 17.7

\[29^\text{Kayhan Research Associates, op. cit., p. 3.}\]

\[30^\text{Rial is the official unit of currency in Iran. The rate of exchange for conversion of rials into dollars is: } $1 = 67.5 \text{ rials.}\]

\[31^\text{Kayhan Research Associates, op. cit., p. 19.}\]
### TABLE 5

GNP At Fixed Prices-1351 (1973)
(in billion rials)

<table>
<thead>
<tr>
<th></th>
<th>Growth Rate/</th>
<th>Growth Rate/</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4th Plan</td>
<td>5th Plan</td>
</tr>
<tr>
<td>A. Consumption</td>
<td></td>
<td></td>
</tr>
<tr>
<td>expenditures</td>
<td>10.7</td>
<td>19.3</td>
</tr>
<tr>
<td>1. Private sector</td>
<td>(7.9)</td>
<td>(15.4)</td>
</tr>
<tr>
<td>2. Public sector</td>
<td>(20.6)</td>
<td>(27.3)</td>
</tr>
<tr>
<td>B. Gross fixed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>investment</td>
<td>13.7</td>
<td>29.7</td>
</tr>
<tr>
<td>1. Private sector</td>
<td>(12.9)</td>
<td>(17.7)</td>
</tr>
<tr>
<td>2. Public sector</td>
<td>(14.6)</td>
<td>(38.1)</td>
</tr>
<tr>
<td>C. Balance of payments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>on current accounts</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>D. GNP at current prices</td>
<td>11.2</td>
<td>25.9</td>
</tr>
<tr>
<td>686</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E. Population</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in millions</td>
<td>3.0</td>
<td>2.9</td>
</tr>
<tr>
<td>F. GNP in rials</td>
<td>7.7</td>
<td>22.3</td>
</tr>
<tr>
<td>G. GNP in $s</td>
<td>7.7</td>
<td>22.3</td>
</tr>
</tbody>
</table>

percent while the public sector will have a 38.1 percent growth rate (see Table 5). This points to relatively higher share of the public sector vis-a-vis the private sector in the Fifth Plan than in the Fourth Plan. The higher growth rate in the public sector was perceived to be necessary by the government in order to meet social welfare needs, improve the infrastructure bottlenecks, upgrade Iran's defense capabilities, and lay the foundation of capital intensive industries.

The Industrial Sector

The Iranian economy was dominated by agriculture and export of petroleum prior to industrialization. Thus, Iran's foreign exchange was earned through the export of these products. However, due to intensive industrialization, industry has become the fastest growing sector of the Iranian economy for the past twenty years.

Industrial sector has reached an average annual growth of 15.2 percent during the last decade. This rapid rate of growth in industry has been achieved through

---

32 Ibid.

33 Industrial and Mining Development Bank of Iran, Annual Report (March 20, 1973), p. 120.
investment by private entrepreneurs, the state, and the multinational corporations which are charted under the laws of other countries besides Iran.

The majority of industrial enterprises established during the Third and Fourth Plans were assembly plants. According to the annual report of Bank Markazi Iran, "Despite the considerable prosperity of various domestic industries . . . , many of these industries are still in the assembly phase and their value added in international prices is rather low. Therefore, due to the high cost of production, the prices of some industrial goods cannot compete with those of similar products abroad."\(^34\) However, by the end of Fourth Plan, special emphasis was attached to the establishment of factories which manufacture component parts.\(^35\)

During the Fifth Plan, special importance is given to the development of petrochemicals, steel industries, agriculturally-based industries, consumer goods industries, and durable goods industries. The goal is to increase investment in the industrial sector from 509 billion rials in 1351 (1972) to 1,130 billion rials in

\(^{34}\)Bank Markazi, Iran, Annual Report, p. 61.

\(^{35}\)Ibid.
1356 (1978). This represents an average annual growth rate of 17 per cent.36

The Government, in the course of Fifth Plan, is seeking to gradually transfer state-owned industries—which was initially established to encourage private sector investment—to the private sector. Moreover, the Government is encouraging the gradual shift of basic industries from Tehran and surrounding areas to Coastal areas and remote provinces which are in need of development.37

The Agricultural Sector

Although the Iranian economy is expected to grow at an average annual rate of 26 per cent in each of the three next years, the agricultural sector is estimated to have an annual growth rate of only four per cent. Thus, the lag in the projected growth rate of the agricultural sector would force the government to import a high level of farm products.

According to government figures, agriculture in 1900 accounted for 90 per cent of Iran's GNP. In 1965,

37 Ibid.
it constituted one-fourth of GNP. And, in 1975, it accounts for only about one seventh of GNP.

With an annual population growth rate of over three per cent and an annual growth rate of four per cent in the agricultural sector; the lagging position of the agricultural sector has emerged not so much because of lack of growth. Rather, it has been caused primarily by the growing domestic demand for food--a demand mainly generated by the greater affluence of the Iranian society.

Since 1960, Iran has launched a number of programs to increase the growth rate of the agricultural sector. In 1962, Government initiated the land reform program with the objective of redistributing land to a large number of farmer tenents.

The second phase of Government activities were directed toward establishment of a system of rural cooperatives to give assistance and easier credit to the former farmers who have become land owners. Recently, there has been an emphasis on the establishment of commercial agri-business complexes. It is hoped that these large, technically advanced, and capital-intensive agricultural units will move the agricultural sector out of the economic backwaters in which it has been for several years.
Summary

Since business organizations have "open systems" characteristics, they cannot exist entirely divorced from their environment. Businesses are significantly influenced—and to some extent influence—the nature of their environment. Thus, survival and growth of business organizations are directly based upon their ability to adapt to the changing environmental conditions.

Since the external environment directly influences management process, management effectiveness, and firm efficiency; it is very significant to identify the key environmental factors and the nature of their impact. In this chapter, the dominant environmental factors of Iran which bear on the operations of the enterprise are identified as socio-cultural, political-legal, educational, and economic.

The extent to which the Iranian culture is congenial or hostile to effective managerial performance is dependent on both the modal personality of the Iranian society and the values held in the different segments of the Iranian social structure.

Values held by individuals have a strong influence on management practices. They become the basis of conduct
in administrative affairs of an enterprise, and a criteria for policy formation.

Thus, to the extent that some of these values are dysfunctional to effective managerial performance; they represent the most difficult and the longest lasting constraint to overcome.

The political-legal environment of Iran has a strong impact on management practices. In general, business laws in Iran tend to encourage business investment and expansion in order to broaden the industrial and agricultural base of the country's economy. However, the firms are hampered by the fact that most business laws have not been formally written and codified. Consequently, there exist a considerable uncertainty for firms which need to make long range planning and investment.

The educational background of the population of Iran affects virtually every aspect of management practices and industrial activities in Iran. The biggest constraints appear to be the high level of illiteracy, and the Iranian educational philosophy with its emphasis on purely theoretical fields (i.e., philosophy, humanities, fine arts, and law) and not enough on applied fields (i.e., engineering, physical sciences, and management).
These factors have a significant impact on managerial behavior and effectiveness. In a direct way, they have a tremendous effect on staffing function, the level of centralization of authority, the organizational structure, the level of specialization, and techniques and technology used in industrial enterprises in Iran.

From an economic point of view, Iran is blessed with certain natural resources, particularly oil, to assist in financing her ambitious economic development. In addition, the country possesses plentiful raw materials--of which copper, chromite, iron, and hydrocarbons are of greatest importance. Consequently, in terms of availability of factors of production (information, materials, and energy), Iran is favorably endowed with large and varied resources of materials and energy.

The key environmental factors in Iran, which have a direct bearing on management practices, are identified as socio-cultural, political-legal, educational, and economic. In the long run, if the goal of the Iranian society is to achieve a greater economic progress through a higher level of productivity; it becomes necessary to readjust the internal elements of its productive organizations as well as the external environments in which these organizations operate. These readjustments need to be
considered from the perspective of managerial effectiveness and efficiency and the goals to be achieved.
CHAPTER V

MANAGEMENT PHILOSOPHY AND
MANAGEMENT EFFECTIVENESS

Management Philosophy

In this study, management philosophy was defined as the implied and expressed attitudes of managers toward employees, consumers, stockholders, suppliers, distributors, government, and community. In order to quantify management philosophy as a variable, a ranking scale for the attitudes of top management of firms under study was developed. Based on this scale, the philosophies of managers—toward the six mentioned agents—were differentiated along a continuum of attitudes.

The management philosophy of firms in the sample was inferred from interviews with the top executives of each of the companies and other information gathered through the course of the research. In the process of inferring a company's management philosophy, several factors were taken into account. Section I in the Appendix out-

---

lines the factors taken into consideration in order to categorize specific management philosophies toward the employees, consumers, distributors, suppliers, stockholders, government, and community. The philosophy toward the stockholders was omitted because the majority of the local firms in the sample were closed corporations (family owned) and did not offer their stocks to the general public.

In order to quantify the company's management philosophy on the basis of numerical values, an index of the overall company philosophy with respect to all of the agents--employees, consumers, distributors, suppliers, government, and the community--was developed. The assigned numerical values of this index is shown in Figure 6.

The company's overall management philosophy was then represented through the total score made by each firm on the management philosophy index. The maximum possible score on the index is 90 and the minimum score is zero. On the basis of the total score made by each firm on the management philosophy index, it was classified into one of three groups, as follows:

---

Most Sophisticated Management Philosophy (MS)  70-90
Somewhat Progressive Management Philosophy (SP)  40-69
Not Progressive Management Philosophy (NP)  0-39

Based on this category, firms with the most sophisticated management philosophy tend to have the most positive attitudes toward employees, consumers, community, government, suppliers, and distributors. Firms with a somewhat progressive management philosophy tend to have a somewhat positive attitude toward these agents. And, firms with not progressive management philosophy usually exhibit unfavorable attitudes toward these agents.\(^3\)

A comparison of levels of sophistication in management philosophy between the U.S. subsidiary companies and their Iranian counterparts is exhibited in Table 6. Out of the 10 American subsidiary companies, one was classified as having a most sophisticated (MS) management philosophy, eight were classified as having a somewhat progressive (SP) management philosophy, and one manifested as having a not progressive (NP) management philosophy.

None of the local firms made a score high enough to be categorized with a most sophisticated (MS) management philosophy. Five of the local companies had a some-

\(^3\)Ibid.
### Ranking of Management Philosophy Elements

<table>
<thead>
<tr>
<th>Element</th>
<th>Very Much Concern</th>
<th>Mild Concern</th>
<th>Little or No Concern</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>20</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>Consumer</td>
<td>THE KING</td>
<td>NECESSARY AGENT</td>
<td>PASSIVE AGENT</td>
</tr>
<tr>
<td>Community</td>
<td>VERY MUCH CONCERN</td>
<td>SOME CONCERN</td>
<td>LITTLE OR NO CONCERN</td>
</tr>
<tr>
<td>Government</td>
<td>GOOD PARTNER</td>
<td>NECESSARY</td>
<td>GOVERNMENT EVIL</td>
</tr>
<tr>
<td>Supplier</td>
<td>GOOD RELATIONSHIP</td>
<td>ABSOLUTELY</td>
<td>GOOD RELATIONSHIP</td>
</tr>
<tr>
<td>Distributor</td>
<td>NECESSARY HELPFUL</td>
<td>7.5</td>
<td>EVIL</td>
</tr>
</tbody>
</table>

### TABLE 6
Comparison of Levels of Sophistication in Management Philosophy Between Iranian and American Firms

<table>
<thead>
<tr>
<th>Firms</th>
<th>Management Philosophy</th>
<th>Most Sophisticated</th>
<th>Somewhat Progressive</th>
<th>Not Progressive</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Firms (n=10)</td>
<td></td>
<td>1</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>Iranian Firms (n=10)</td>
<td></td>
<td>0</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>
what progressive (SP) management philosophy and five were
classified as having a not progressive (NP) management
philosophy.

Table 7 indicates the various segments of phil-
osophies of Iranian and American managers toward employ-
ees, consumers, community, government, suppliers, and
distributors. The scores indicate that the American
firms are more consumer oriented than the Iranian firms.
Seven out of 10 American firms had consumer relations
policies similar to their parent firms in the United
States. Three others stated that their consumer rela-
tions policies were formulated by the top management
of the Iranian subsidiary firms. On the other hand, nine
out of 10 local firms had consumer relations policies
which were formulated by the chief executive. The one
remaining firm did not have any formal consumer relations
policy.

In regard to the philosophy toward employees, the
American firms scored higher. It was asserted that the
American firms, as a group, had a greater concern for
their employees' development, education, and training than
their Iranian counterparts.

As a group, Iranian firms scored higher on philos-
TABLE 7
Mean Scores of Various Philosophies for Iranian and American Firms

<table>
<thead>
<tr>
<th>Agents</th>
<th>Iranian Firms</th>
<th>American Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>13.0</td>
<td>18.6</td>
</tr>
<tr>
<td>Consumers</td>
<td>14.6</td>
<td>16.5</td>
</tr>
<tr>
<td>Community</td>
<td>5.0</td>
<td>5.5</td>
</tr>
<tr>
<td>Government</td>
<td>7.7</td>
<td>7.7</td>
</tr>
<tr>
<td>Supplier</td>
<td>8.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Distributor</td>
<td>8.5</td>
<td>7.5</td>
</tr>
</tbody>
</table>
ophy toward suppliers. It was indicated by every one of these local firms that although the primary factor in determining the choice of supplier was cost; other factors such as reliability, quality, and honest relationships were also important considerations.

Both groups of firms scored the same mean in regard to their philosophies toward the government. It should be pointed out, however, that subsidiary companies and local firms were under different sets of controls from the government. That is, government policies—established through specific laws or as provisions formulated as part of national economic planning—relating to foreign enterprise operations are different from those affecting local firms.

In regard to philosophy toward the community, the data in Table 7 indicate that there were no appreciable differences between American subsidiaries and local firms. One reason for the relatively high level of concern of American firms toward the community may be that these firms were very sensitive toward public opinions. Thus, it was imperative on their part to become active in community affairs and have special public relation programs.

In regard to the philosophy toward distributors,
the Iranian firms scored higher as a group. All the local companies surveyed, except two, indicated that they valued their relationships with distributors highly. The reason given was that smooth relationships with distributors were absolutely necessary for these firms if they were going to survive in business. The remaining two local firms owned their distribution facilities.

Management Effectiveness

In this study, management effectiveness was defined as the extent to which managers are able to develop and maintain an effective organization. The indicators used to measure the level of management effectiveness were: employee turnover, employee absenteeism, management ability to attract and retain high-level manpower, employee morale and satisfaction in work, interpersonal relationships in organizational settings, departmental relationships, the executive's perception of the firm's overall objectives, utilization of high level manpower, and organizational effectiveness in adopting to the external environments.\(^4\)

In order to quantify management effectiveness as a variable, a ranking scale for the nine mentioned indi-

cators was developed. Based on this scale, the management effectiveness of the firms in the sample were differentiated along an effectiveness continuum.

Section III in the Appendix outlines the factors which were taken into account in order to categorize management effectiveness with their appropriate assigned numerical values. The company's overall management effectiveness is represented through the total score made by each firm on management effectiveness index. The maximum possible score on the index is 90 and the minimum score is zero. On the basis of the total score made by each firm on the management effectiveness index, the firm was classified into three groups as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most Effective (ME)</td>
<td>70-90</td>
</tr>
<tr>
<td>Somewhat Effective (SE)</td>
<td>40-69</td>
</tr>
<tr>
<td>Not Effective (NE)</td>
<td>0-39</td>
</tr>
</tbody>
</table>

Table 8 exhibits a comparison of levels of management effectiveness between the U.S. subsidiary companies and the local firms operating in Iran. Out of the ten American subsidiary companies, one was classified as having a most effective (ME) management effectiveness, and nine were classified as having a somewhat effective (SE) management effectiveness. None of the American firms made a score low enough to be categorized with a not
## TABLE 8
Comparison of Levels of Effectiveness Between Iranian and American Firms

<table>
<thead>
<tr>
<th>Firms</th>
<th>Most Effective</th>
<th>Somewhat Effective</th>
<th>Not Effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Firms (n=10)</td>
<td>1</td>
<td>9</td>
<td>0</td>
</tr>
<tr>
<td>Iranian Firms (n=10)</td>
<td>1</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>
effective (NE) management effectiveness.

Out of the ten local firms operating in Iran, one had a score high enough on the effectiveness continuum to be categorized as most effective (ME). Five of the local firms had a somewhat effective (SE) management effectiveness, and four were classified as being not effective (NE) on the effectiveness scale.

Comparative Analysis of Management Philosophy and Effectiveness

In this section an attempt is made to analyze the relationships that may exist between the management philosophy and management effectiveness variables. The approach of analysis is based on a comparative framework between levels of sophistication in management philosophy and levels—or elements—of management effectiveness of Iranian and American firms operating in Iran.

Data presented in Table 9 exhibits a comparison between levels of sophistication in management philosophy and levels of effectiveness of Iranian and American companies. One U.S. subsidiary firm, categorized as having most sophisticated management philosophy was also most effective on management effectiveness index. Eight American and four Iranian companies categorized as having somewhat progressive management philosophy had a somewhat
<table>
<thead>
<tr>
<th>Management Effectiveness</th>
<th>Overall Comparison</th>
<th>Most Sophisticated</th>
<th>Somewhat Progressive</th>
<th>Not Progressive</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Local</td>
<td>U.S. Local</td>
<td>U.S. Local</td>
<td>U.S. Local</td>
<td>U.S. Local</td>
</tr>
<tr>
<td>n=10</td>
<td>n=10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Most Effective</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Somewhat Effective</td>
<td>9</td>
<td>5</td>
<td>-</td>
<td>8</td>
</tr>
<tr>
<td>Not Effective</td>
<td>-</td>
<td>4</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
effective management effectiveness. Four Iranian firms categorized as having not progressive management philosophy demonstrated to be not effective on the effectiveness continuum. One Iranian and one American company categorized as having not progressive management philosophy had a somewhat effective management effectiveness. And, one Iranian firm with somewhat progressive management philosophy scored high enough on the effectiveness continuum to be categorized with most effective management effectiveness. On an overall basis, the data indicated that there exist a positive relationship between levels of sophistication in philosophy and levels of effectiveness.

**Employee Turnover**

Data presented in Table 10 indicate that employee turnover in American subsidiary firms was lower than that of local companies. Slightly less than one-third of U.S. firms in Iran had a turnover rate of less than six percent per year, while only one Iranian company had a similar record.

The analysis of data in Table 10 revealed that although the firm's management philosophy had some influence on employee turnover, there existed other mediating variables affecting the rate of turnover. Since on an
TABLE 10

Comparison Between Levels of Sophistication in Management Philosophy and Employee Turnover

<table>
<thead>
<tr>
<th>Employee Turnover</th>
<th>Overall Comparison</th>
<th>Most Sophisticated</th>
<th>Somewhat Progressive</th>
<th>Not Progressive</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>U.S. Local</td>
<td>U.S. Local</td>
<td>U.S. Local</td>
<td>U.S. Local</td>
</tr>
<tr>
<td>%</td>
<td>n=10</td>
<td>n=10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0-5</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>6-11</td>
<td>5</td>
<td>4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>12 and more</td>
<td>2</td>
<td>5</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
average basis, the rate of turnover among U.S. firms was lower than that of local firms. Higher wage rates and better working conditions offered by subsidiary companies in comparison to local companies might explain the differences in rates of turnover between U.S. and local firms.

**Employee Absenteeism**

The data concerning employee absenteeism, as presented in Table 11, indicate that there were no appreciable differences between American subsidiaries and local firms in Iran. Almost an equal number of American firms (two) and Iranian firm (one) had an absenteeism rate of below six per cent. The same was true with firms experiencing six to 11 per cent or above 12 per cent rates of absenteeism.

As Table 11 indicates, the levels of sophistication in management philosophy has had some influence on the rates of absenteeism. For example, one American firm classified as most sophisticated in philosophy had an absenteeism rate of zero to five per cent. There were ten firms (six American and four Iranian) with somewhat progressive management philosophy which had six to 11 per cent rates of absenteeism. And, three local and one
### TABLE 11
Comparison Between Levels of Sophistication in Management Philosophy and Employee Absenteeism of U.S. and Local Firms

<table>
<thead>
<tr>
<th>Employee Absenteeism</th>
<th>Overall Comparison</th>
<th>Most Sophisticated</th>
<th>Somewhat Progressive</th>
<th>Not Progressive</th>
</tr>
</thead>
<tbody>
<tr>
<td>% \nU.S. Local n=10 \nU.S. Local n=10</td>
<td>\nU.S. Local</td>
<td>\nU.S. Local</td>
<td>\nU.S. Local</td>
<td>\nU.S. Local</td>
</tr>
<tr>
<td>0-5</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>6-11</td>
<td>6</td>
<td>6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>12 and more</td>
<td>2</td>
<td>3</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
American firm categorized as not progressive in management philosophy scored above 12 per cent in employee absenteeism.

**Attracting and Retaining High-Level Manpower**

Data presented in Table 12 indicate that the American subsidiaries were more successful in attracting and retaining high-level managerial and technical personnel than their local counterparts. However, as a whole, both sets of firms seemed to have difficulty in recruiting high level management and technical personnel. Further investigation revealed that the lack of availability of adequate supply of technical and managerial talent in Iran seems to be a contributing factor affecting management's ability to recruit and employ high-level manpower in both sets of firms.

**Employee Morale and Satisfaction**

Data presented in Table 13 indicate that there were no significant differences between U.S. subsidiaries and local firms in regard to employee morale and satisfaction. The analysis of data suggests that, as a whole, there exist a positive relationship between levels of sophistication in philosophy and employee morale and
TABLE 12
Comparison Between Levels of Sophistication in Management Philosophy and Management’s Ability to Attract and Retain High-Level Manpower of U.S. and Local Firms

<table>
<thead>
<tr>
<th>Management Philosophy</th>
<th>Overall Comparison</th>
<th>Most Sophisticated</th>
<th>Somewhat Progressive</th>
<th>Not Progressive</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Local</td>
<td>U.S. Local</td>
<td>U.S. Local</td>
<td>U.S. Local</td>
<td>U.S. Local</td>
</tr>
<tr>
<td>n=10</td>
<td>n=10</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Able to Attract and Retain High Level Manpower

<table>
<thead>
<tr>
<th></th>
<th>Able to Attract and Retain High-ly Trained Personnel</th>
<th>Able to Attract and Retain Moderately Trained Personnel</th>
<th>Not Able to Attract and Retain Even Moderately Trained Personnel</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2 1 1 - 1 1 - -</td>
<td>3 2 - - 3 2 - -</td>
<td>5 7 - - 4 2 1 5</td>
</tr>
</tbody>
</table>
TABLE 13
Comparison Between Levels of Sophistication in Management Philosophy and Employee Morale and Satisfaction of U.S. and Local Firms

<table>
<thead>
<tr>
<th>Employee Morale and Satisfaction</th>
<th>Overall Comparison</th>
<th>Most Sophisticated</th>
<th>Somewhat Progressive</th>
<th>Not Progressive</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Local</td>
<td>U.S. Local</td>
<td>U.S. Local</td>
<td>U.S. Local</td>
<td></td>
</tr>
<tr>
<td>n=10</td>
<td>n=10</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Morale and Satisfaction</th>
<th>Most Sophisticated</th>
<th>Somewhat Progressive</th>
<th>Not Progressive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent Morale and Highly Satisfied</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Average Morale and Somewhat Satisfied</td>
<td>6</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Poor Morale and Highly Dissatisfied</td>
<td>2</td>
<td>4</td>
<td>1</td>
</tr>
</tbody>
</table>
satisfaction. For example, one American firm classified as most sophisticated in philosophy had achieved excellent morale. There were ten firms (six American and three Iranian) with somewhat progressive management philosophy which had average morale. And, four local and one American firm categorized as not progressive in management philosophy which had poor morale.

Interpersonal Relationships in Organizational Settings

The data regarding interpersonal relationships in organizational settings are presented in Table 14. As can be seen from this Table, the level of cooperation among employees in American subsidiaries was higher than that of comparable Iranian companies. Slightly less than one-third of U.S. firms in Iran exhibited a very cooperative attitude in terms of cohesiveness among employees, while only one Iranian firm had a similar record. The majority of companies (five American and four Iranian) had a somewhat cooperative attitude among their employees. Of the remaining companies (two American and five Iranian), it was observed that these firms had failed to create a cooperative atmosphere and supportive relationship among their employees.

Data presented in Table 14 lend support to the
**TABLE 14**

Comparison Between Levels of Sophistication in Management Philosophy and Interpersonal Relationships in Organizational Settings of U.S. and Local Firms

<table>
<thead>
<tr>
<th>Interpersonal Relationships in Organizational Settings</th>
<th>Overall Comparison</th>
<th>Most Sophisticated</th>
<th>Somewhat Progressive</th>
<th>Not Progressive</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Local</td>
<td>U.S. Local</td>
<td>U.S. Local</td>
<td>U.S. Local</td>
<td>U.S. Local</td>
</tr>
</tbody>
</table>

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Cooperative</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Somewhat Cooperative</td>
<td>5</td>
<td>4</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Poor Cooperation</td>
<td>2</td>
<td>5</td>
<td>-</td>
<td>1</td>
</tr>
</tbody>
</table>


notion that there existed a positive relationship between the levels of sophistication in management philosophy and levels of cooperative attitudes in organizational settings. For example, one American firm classified as most sophisticated in philosophy was able to maintain a very cooperative relationship. The firms with somewhat progressive management philosophy (five American and four local) were able to maintain somewhat cooperative relationships. And, five local and one American firm categorized as not progressive in management philosophy had poor cooperation records.

**Ability to Adapt to the External Environments**

Data presented in Table 15 indicate that there were no appreciable differences between American subsidiaries and local firms in regard to their ability to adapt to the external environments. Two American and three local firms were able to adapt without much difficulty; five American and four local firms were able to adapt partially with some difficulty; and three American and three local firms were not able to adapt to the external environments.

The analysis of data in Table 15 suggested that management philosophy—as an independent variable—accounted in part for a company's ability to adapt to the
TABLE 15
Comparison Between Levels of Sophistication in Management Philosophy and Organizational Effectiveness in Adapting to the External Environments of U.S. and Local Firms

<table>
<thead>
<tr>
<th>Management Philosophy</th>
<th>Overall Comparison</th>
<th>Most Sophisticated</th>
<th>Somewhat Progressive</th>
<th>Not Progressive</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Local</td>
<td>U.S. Local</td>
<td>U.S. Local</td>
<td>U.S. Local</td>
<td>n=10 n=10</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Able to Adapt Without Much Difficulty</th>
<th>Able to Adapt Partially with Some Difficulty</th>
<th>Not Able to Adapt</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>
external environments. For example, one American firm classified as most sophisticated in management philosophy was able to adjust to environmental changes successfully. The five American and two local firms with somewhat progressive management philosophy were able to adapt partially to environmental changes. Meanwhile, one American and three local firms categorized as not progressive in management philosophy were unable to adapt successfully to changes in their external environments.
CHAPTER VI

MANAGEMENT PROCESS

The management process involves management functions designed to accomplish the goals of organization. In this study, management process was defined as the way managers perform their functions of planning, organizing, staffing, directing, and controlling. This chapter deals with identification and comparison of the manner in which the U.S. subsidiaries and local firms in Iran carried out the management functions of planning, organizing, staffing, directing, and controlling.

Planning Function

In this research, the planning function is defined as the process of establishing the objectives or aims of an organization and the approaches for achieving them. Since the primary step in planning is the establishment of organizational objectives, information from the respondents was sought about the major objectives or goals of their organizations; the individuals who participated in formulating the objectives; and the levels of documentation of objectives.
Organizational Objectives

Data in Table 16 pertain to the stated objectives of firms in this study. Eight American and seven Iranian firms stated that their major organizational objectives was long-term profitability. None of these firms however, had documented a quantifiable measure of effectiveness (standard) for long-term profitability.

There were eight firms (four American and four local) which expressed maximation of market share as their major objectives. Six of these firms had their objectives stated in a quantitative manner. More than half of U.S. subsidiaries considered service to community as one of their major goals, while two local firms had similar aims. Seven firms (five American and two local) stated that growth was one of the goals of their firms.

Formulation of Objectives

The firms were also asked about the individuals who participate in formulating their major objectives. The majority of American firms stated that their overall objectives were established by their parent firms; in the others, executive committees—composed of the president and the various vice-presidents—were responsible for establishment of company goals. Among the local firms,
### TABLE 16
Major Objectives

<table>
<thead>
<tr>
<th>Objectives</th>
<th>U.S. Subsidiaries</th>
<th>Iranian Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Market Share</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Service to Community</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Growth</td>
<td>5</td>
<td>2</td>
</tr>
</tbody>
</table>
six stated that the establishment of the major objectives was the sole responsibility of the president. In two firms the board of directors formulated the objectives, while two others did so through executive committees.

**Documentation of Objectives**

Data in Table 17 pertain to documentation of objectives. It reveals that four out of ten U.S. subsidiaries and two out of ten Iranian companies have their objectives documented in manuals or memorandums. Eight firms (two American and six local) had their objectives partially documented in company manuals, while there were four American and two Iranian firms which did not have their objectives documented at all.

**Planning Orientation**

Data presented in Table 18 refer to the time orientation of planning for the U.S. subsidiaries and local firms. Among the ten U.S. subsidiaries, three undertook long range planning on a five to ten year basis. Among the ten local firms, only one could be characterized as focusing on long range planning.

There were eight firms (five American and three local) which were engaged in medium range planning. Planning in six U.S. subsidiaries and five local firms could be characterized as short term. Furthermore, one Ameri-
<table>
<thead>
<tr>
<th>Objectives</th>
<th>U.S. Subsidiaries</th>
<th>Iranian Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Documented</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Partially Documented</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Not Documented</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Planning Orientation</td>
<td>U.S. Subsidiaries</td>
<td>Local Firms</td>
</tr>
<tr>
<td>----------------------</td>
<td>------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Long Range Planning</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>(5 years or more)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium Range Planning</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>(3 to 5 years)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short Range Planning</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>(1 to 2 years)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ad Hoc Basis</td>
<td>1</td>
<td>3</td>
</tr>
</tbody>
</table>
can and three local firms did not have formalized planning with specific time span.

The data regarding the time orientation of planning and the nature of plans for U.S. subsidiaries and local firms seemed to indicate that the American firms, as a group, were engaged to a greater extent in comprehensive, long-term oriented plans than their local counterparts.

Organizing Function

The concept of organization may be defined as the arrangement of individuals—through the allocation of functions, authority, and responsibility—for achievement of some common interest. Barnard has defined an organization as a system of cooperative human activities.¹ From this perspective, when two or more persons combine their efforts for some common interest an organization emerges. Thus, any action which calls for associated human behavior accrues within the framework of organization.

On the managerial function of organizing, information from respondents was sought about the formal structure of their organizations, and the degree of centrali-

zation or decentralization of authority in their firms.

Organizational Structure

In the case of U.S. subsidiaries, their organization structure consisted of from four to seven layers of hierarchy; with one third of the firms having five layers in their organizational structure. Nine of the ten American firms had a formal organization chart drawn out. All the companies had organizational manuals. Three of the companies were organized on geographical basis, while the remaining seven were organized on functional basis. Half of the firms reported that they used service departments. Eight of the firms had staff personnel, most of whom had staff authority. Two companies reported that their staff personnel were exercising functional authority in their areas of speciality.

In the case of local firms, the companies had an organization structure made up from five to 11 layers of hierarchy. Half of the companies reported that they did not have organizational charts or manuals. Six of the companies were organized on functional basis, two had their organization structure designed based on geographical areas, and the remaining two were organized on the basis of their product lines. Half of the companies had
staff personnel, all of whom had staff authority.

Authority System

As an organization grows in both size and complexity, management must have an organizational strategy in order to control and channel the activities of members toward achievement of organizational goals and objectives. Many studies of management have indicated that the larger and more complex the structure of the organization, the more delegation of authority and decision making there must be. In this light, an attempt was made, in this study, to examine the system of authority within U.S. subsidiaries and local firms in Iran.

The majority of American firms could be characterized as "decentralized" in structure. That is, there seemed to exist a considerable amount of delegation of authority and decision making. Generally, the top executives were concentrating on general management activities and policy formulation; while the department affecting the activities of their department. Thus, the department managers had decision-making authority in their functional areas, and they were held accountable for the effectiveness of their operating units.
In the case of local firms, the most characteristic feature of their structure was the centralization of authority and decision making in the top echelon of the firms. In most cases, authority resided in the chief executive and was not spread throughout the organization. In the case of middle and operating managers, these individuals were considered part of management team and were given responsibility in their functional areas. However, in most cases, they were not granted legitimate authority to make decisions in their areas of specialization.

The prevailing system of centralization of authority in Iranian organizations seemed to be based upon two factors. First, the majority of business enterprises were family-owned and, thus, the conjunction of ownership and management played the dominant role in establishing the authority system. That is, ownership was perceived to constitute the ultimate source of authority in the daily operations of the firm, and professional managers were hired to carry out the directives of owner-managers. Second, the dominant attitudes of senior executives toward their subordinates seem to be based upon the beliefs
that if you want something done well you cannot trust your subordinates' performance unless you watch them closely.

**Staffing Function**

In this research, the staffing function is defined as the process of "managing the organization structure through proper and effective selection, appraisal, and development of personnel to fill the roles designed into the structure." In order to select, appraise, and develop the personnel effectively, positions designed into the structure of the organization must be analyzed, described, and specified. In the field of human resource management, these tasks are commonly referred to as job analysis, job description, and job specification. Job analysis is the process of determining the tasks, abilities, skills, and responsibilities which are required for performing the job successfully. The data gathered in job analysis, then, becomes the basis for outlining the contents and requirements of a job (job description) and the needed

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qualifications to perform the job (job specification).³

Job Description Program

The analysis of data in Table 19 indicates that of the ten American firms in the sample, three had comprehensive job description programs based on relevant data (i.e., job analysis) which covered both white and blue-collar employees. In the case of local firms, two companies had similar programs.

Four American and three local firms had formal job description programs which were non-comprehensive. Two American and two local firms had some kind of job description programs which were not formal and comprehensive for all types of personnel. The remaining firms (one American and three local) did not have any job description programs at all.

Manpower Management Policy

Manpower management policies are general statements established to guide managerial decision making in the area of employee relations. They are designed to direct

<table>
<thead>
<tr>
<th></th>
<th>U.S. Subsidiaries</th>
<th>Iranian Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal and comprehensive, covers both white and blue-collar employees</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Formal and non-comprehensive, covers blue-collar employees only</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Informal</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>No job description program</td>
<td>1</td>
<td>3</td>
</tr>
</tbody>
</table>
decisions toward the achievement of organizational objectives.

When the American and Iranian firms were asked who makes manpower management policy for their companies, seven of the ten American firms and three of the ten Iranian firms said that it was done by an executive committee made up of their senior executives. Half of the local firms indicated that this activity was done by the president himself, the remaining two indicated that it was done by their personnel managers. Two American firms indicated that their overall personnel policies were established through their parent firms in the United States.

Table 20 exhibits the nature of policies pertaining to human resource management. It indicates that there were five U.S. subsidiaries and two local firms in which the manpower management policies were formally stated and documented. In three American and four Iranian firms, there were personnel policies which were formally stated but partially documented. There were three firms (one American and two local) which had some personnel policies on an informal basis, while the remaining three (one American and two local) had no such policies.

The analysis of data in Table 20 indicates that
<table>
<thead>
<tr>
<th>Management Policies</th>
<th>Overall</th>
<th>Most Sophisticated</th>
<th>Somewhat Progressive</th>
<th>Not Progressive</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Local</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formal policies, documented</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Formal policies, partially documented</td>
<td>3</td>
<td>4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Informal policies</td>
<td>1</td>
<td>2</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>No policies, decisions based on ad hoc basis</td>
<td>1</td>
<td>2</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
the levels of sophistication in management philosophy has had some influence on the nature of manpower management policies. For example, one American firm classified as most sophisticated in philosophy had personnel policies which were formally stated and documented. In the case of companies with SP management philosophy, four of the U.S. subsidiaries and two local firms had formal policies which were documented; three American and three local firms had policies which were partially documented; and one American firm had policies on an informal basis.

**Selection Process**

Selection of employees, for effective performance on the job, involves matching personal characteristics, traits, and abilities with job specifications. This approach to selection process is based on the premise that "an employee works best and accomplishes most when he is assigned a definite job for which he is mentally, emotionally, and physically suited, which is of sufficient difficulty to challenge his best efforts, and which is to be completed in a given period of time."\(^4\)

In this research, the selection practices of the

firms in the sample were identified and analyzed based on the degree of their formalization and incorporation of relevant data (i.e., data generated through job analysis) in their programs. Data in Table 21 indicate that in four of the ten U.S. subsidiaries and two of the ten Iranian companies, there were selection programs which were formally stated and were based on relevant data. There were three American and four Iranian companies in which the selection practices were formally stated but were based on partially relevant data. The remaining firms had *ad hoc* programs or no program at all.

**Directing Function**

Directing function involves supervision and guidance of personnel to contribute effectively and efficiently to the achievement of organizational objectives. Topics which are related to this function include motivation, communication, and leadership.

In this research, data gathered on the directing function pertain to identification of managers' perception of their subordinates and the dominant managerial leadership styles in U.S. subsidiary organizations and their Iranian counterparts. In order to assess leaders' perception of their subordinates as well as classify
**TABLE 21**

Selection Process

<table>
<thead>
<tr>
<th></th>
<th>U.S. Subsidiaries</th>
<th>Iranian Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal program</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>based on relevant</td>
<td></td>
<td></td>
</tr>
<tr>
<td>data</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formal program</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>based on some</td>
<td></td>
<td></td>
</tr>
<tr>
<td>relevant data</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ad hoc program</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>No program at all</td>
<td>1</td>
<td>3</td>
</tr>
</tbody>
</table>
their leadership styles (on the basis of authoritarian participative, or free-reign); a variety of direct and indirect questions were asked of the respondents in the firms studied. Part II of Appendix contains those questions.

Managers' Perception of Subordinates

Underlying the interpersonal relationships between managers and their subordinates are a set of implicit assumptions concerning the nature of human beings and the behavior of human beings in a work situation. Theory X is a group of assumptions which states that work does not have intrinsic satisfaction; that individuals dislike work and avoid it as much as possible; that close supervision is needed to achieve organizational objectives; and that workers prefer to be directed, wish to avoid responsibility, and have little ambition.5

On the other hand, the assumptions of Theory Y are the opposites of those of Theory X. Theory Y states that, under proper conditions, workers exercise self-direction and self-control; seek responsibility; and show the capacity to exercise imagination and creativity in the

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solution of problems in the organization.  

Table 22 presents data on managers' perception of subordinates based on their assumptions concerning the nature of human beings. The managers' perception of subordinates were inferred from interviews with the top executives of each of the companies surveyed.

Exising the overall comparisons, it was found that in more than half of the local firms the predominant assumptions of managers toward the workers were based on Theory X approach. Among the U.S. subsidiaries, the managers of three companies thought similarly of their subordinates. There were three firms (two American and one Iranian) in which the managers regarded their subordinates based on Theory Y assumptions. In the remaining seven firms, the managers tended to have some level of confidence in their subordinates.

The analysis of data in Table 22 revealed that, as a whole, there exists a positive relationship between levels of sophistication in philosophy and managers' perception of subordinates. For example, managers in the

---


7 Please refer to Section V, Directing Function, of the questionnaire guide which appears in Appendix.
TABLE 22
Manager's Perception of Subordinates

<table>
<thead>
<tr>
<th>Management Philosophy</th>
<th>Overall Comparison</th>
<th>Most Sophisticated</th>
<th>Somewhat Progressive</th>
<th>Not Progressive</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>U.S. Local</td>
<td>U.S. Local</td>
<td>U.S. Local</td>
<td>U.S. Local</td>
</tr>
<tr>
<td>Perception based on Theory Y assumptions</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Perception based on some confidence in subordinates (the middle of the road between Theories X and Y)</td>
<td>5</td>
<td>2</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Perception based on Theory X assumptions</td>
<td>3</td>
<td>7</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
MS-type firm perceived their subordinates based on Theory Y assumptions. Among the SP-type companies, managers in five U.S. subsidiaries and two local firms tended to perceive their subordinates with some confidence. Moreover, in all of the NP-type companies (both U.S. and Iranian), managers perceived their subordinates based on Theory X assumptions.

Managerial Leadership

The managers of an organization have primary responsibility for influencing and guiding their subordinates toward the accomplishment of organizational objectives. Leadership styles are patterns of behavior from which a manager may select the one he feels most appropriate. There are three major styles of leadership, as determined by the degree of authority exerted by the manager. They are: authoritarian, participative, and free-reign.

With the authoritarian style, the decision making resides primarily with the manager. The manager makes the decision and announces it to his subordinates. With the participative style, the manager encourages his subordinates to participate in the decision making process. The free-reign leader delegates his authority for decision making to his subordinates. This style allows the
maximum degree of subordinate participation within formal organizations.

Research and experience have indicated that effectiveness of leadership styles is based upon three interacting variables. They are: forces in the manager, forces in the subordinates, and forces in the situation. Thus, from this contingency viewpoint, the situation will structure the type of leadership that is called for.

In this research, in addition to authoritarian, participative, and free-reign styles of leadership; the bureaucratic style was also identified. The bureaucratic leader is identified here as the manager who attempts to influence the behavior of his subordinates primarily by the restrict enforcement of organizational rules, regulations, and procedures.

Data presented in Table 23 pertain to leadership styles of managers in U.S. subsidiary organizations and local firms. Among the ten U.S. subsidiaries, the dominant leadership style was participative. Among the local companies, the authoritarian and bureaucratic styles were

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8 See Robert Tannenbaum and Warren H. Schmidt, "How to Choose a Leadership Pattern," Harvard Business Review, Volume 34, Number 2 (March-April, 1958), pp. 95-101 for the discussion concerning the leadership patterns that form a continuum and the factors which determine the effectiveness of leadership styles.
### TABLE 23
Managerial Leadership

<table>
<thead>
<tr>
<th>Management Philosophy</th>
<th>Overall Comparison</th>
<th>Most Sophisticated U.S. Local</th>
<th>Somewhat Progressive U.S. Local</th>
<th>Not Progressive U.S. Local</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>U.S. Local n=10</td>
<td>U.S. Local n=10</td>
<td>U.S. Local</td>
<td>U.S. Local</td>
</tr>
<tr>
<td>Authoritarian</td>
<td>3</td>
<td>4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Participative</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Freereign</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bureaucratic</td>
<td>2</td>
<td>4</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2</td>
</tr>
</tbody>
</table>
the dominant patterns.

Among the MS-type organizations, managers in one U.S. subsidiary tended to utilize the participative pattern. Among the SP-type companies, the dominant style of leadership in four firms were authoritarian, in six firms participative, and in three firms bureaucratic. In regard to the NP-type companies, managers in three firms were primarily authoritarian and in three they manifested the bureaucratic style of leadership. Thus, the above analysis suggests that firm's management philosophy has had some influence on the styles of leadership prevalent in U.S. subsidiary and local companies.

Controlling Function

Controlling is the process by which management compares the actual behavior against some desired behavior (standard) established in the planning process. In the event that there exist some deviation between the planned behavior and the actual behavior, management needs to take corrective actions in order to correct the situation. Thus, the basic steps of the control process are: establishing desired behavior, measuring the actual behavior, comparing the actual with the desired behavior, and taking corrective action in case there exist deviation between
actual and desired behavior. Regardless of the type of control—whether it is quality control, quantity control, or behavioral control—the above steps basically remain the same.

In order to identify and analyze the control systems of the firms in the sample, information was elicited from the respondents on the standard setting and the basis on which these standards were established in their organizations. Data gathered on the control function were limited to production, office, and sales departments of the firms under the study.

Data presented in Table 24 pertain to standard setting and the basis on which these standards were established in the production departments of the U.S. subsidiaries and local firms. On the basis of overall comparisons, production standards were set primarily by production managers and executive committees in American firms. In the case of local firms, this task was performed primarily by top managers and production managers.

In regard to the basis on which production standards were established, the majority of American firms reported that they employed statistical analysis or past performance records. Half of the local firms stated that
### TABLE 24

Establishing Standards in Production Department

<table>
<thead>
<tr>
<th>Standards are set by:</th>
<th>U.S. Subsidiaries</th>
<th>Iranian Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top manager</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Production manager</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Controller</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Special committee</td>
<td>4</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Standards are set based on:</th>
<th>U.S. Subsidiaries</th>
<th>Iranian Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Past performance</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Performance in comparable firms</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Statistical Analysis</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Ad hoc</td>
<td>1</td>
<td>3</td>
</tr>
</tbody>
</table>
they set their production standards on the basis of past performance data, while three firms could be characterized as setting their standards on an ad hoc basis.

With regard to standard setting in the sales department, close similarities appeared in the practice of U.S. subsidiaries and local firms. The data presented in Table 25 do not indicate any significant differences between the American and local firms.

At the overall level, there were some differences between U.S. subsidiaries and the Iranian companies with respect to standard setting and the basis on which the standards were established in office work. Data presented in Table 26 revealed that in the majority of Iranian owned enterprises, office standards were set by a member of top management. In the case of American firms, four of them indicated that it was the personnel manager's responsibility to set these standards.

Of the ten U.S. subsidiaries, five had instituted office work standard based on past performance records. In the majority of Iranian-owned enterprises, office work standards had not been instituted on a formalized basis. In three companies, past performance was the basis for setting office standards.
### TABLE 25
**Establishing Standards in Sales Department**

<table>
<thead>
<tr>
<th>Standards set by:</th>
<th>U.S. Subsidiaries</th>
<th>Iranian Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top manager</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Sales manager</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Controller</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Special committee</td>
<td>2</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Standards are set based on:</th>
<th>U.S. Subsidiaries</th>
<th>Iranian Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Past performance</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Performance in comparable firms</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Statistical forecast</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Ad hoc</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>
### TABLE 26

Establishing Standards in Office

<table>
<thead>
<tr>
<th>Standards set by:</th>
<th>U.S. Subsidiaries</th>
<th>Local Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top manager</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Department manager</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Personnel manager</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Special committee</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Standards are set based on:</th>
<th>U.S. Subsidiaries</th>
<th>Local Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Past performance</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Performance in comparable firms</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Statistical analysis</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Ad hoc</td>
<td>3</td>
<td>6</td>
</tr>
</tbody>
</table>
CHAPTER VII

CONCLUSIONS AND RECOMMENDATIONS

This chapter is divided into four parts. The first part deals with an exploratory tests of the hypotheses. The second part deals with the major conclusions arrived at as the result of principal similarities and differences that appeared in Chapters V and VI. The third part deals with the implications of this study on the question of transferability and application of management knowledge to developing countries. The last part is devoted to a discussion of some areas for further research and investigation.

Exploratory Test of the Hypotheses

The primary purpose of this research was to test the hypotheses concerning the effects of environmental and cultural factors on transferability of management knowledge from one environment to another. To achieve this purpose, five concepts—management philosophy, management process, management effectiveness, environmental factors, and firm efficiency—were employed as variables. In order to investigate the relationships among these
concepts, a two way comparison among a group of U.S. subsidiaries operating in Iran, and a group of comparable local firms in Iran were made through the gathering of empirical data.

Hypothesis I deals with possible overall relationships between management philosophies of U.S. subsidiary firms and Iranian firms. Analysis of variances was used to test this hypothesis. Details on these computations are given in part VI of the Appendix. The analysis of data support Hypothesis I which states that management philosophy of American firms operating in Iran tends to be different from the management philosophy of comparable Iranian firms operating in Iran.

The mean value of management philosophy of American firms was 59.30, while the mean value of management philosophy of Iranian firms was 45.75. As a group, both sets of firms tend to be somewhat progressive (SP) in their overall attitudes toward employees, consumers, suppliers, distributors, government, and community. Moreover, as a group, American firms tend to be more sophisticated in their philosophy toward the six mentioned agents than their Iranian counterparts.

Hypothesis II deals with possible overall relationships between management philosophy variable and
management effectiveness variable. Pearson's correlation analysis was used to test this hypothesis. Details on the computations are given in part VI of the Appendix. Based on the analysis of data, Hypothesis II is accepted. This Hypothesis states that firms operating in the same environment with different management philosophies tend to have different levels of management effectiveness.

The mean value of management effectiveness of American firms was 49.30, while the mean value of management effectiveness of Iranian firms was 44.80. Thus, as a group, both sets of firms could be characterized as somewhat effective (SE). Moreover, as a group, American firms tend to be more effective than their Iranian counterparts.

In Chapter VI, the analysis of data indicated that differences in the management philosophies of Iranian firms and American subsidiaries tend to affect the way the managers of these firms perform their functions of planning, organizing, staffing, directing, and controlling. Based on the findings of that chapter, Hypothesis III which states that firms operating in the same environment with different management philosophies tend to use different management practices is accepted.
Data gathered in this research support Hypothesis IV which states that the greater the direct effect of management practice upon the employees' value systems, beliefs, and attitudes, the less is its applicability to another environment. The comparative analysis of management practices of the American firms and the Iranian firms in Chapter VI indicated that management practices that can be carried out without reference to employees' value systems, beliefs, and attitudes are more applicable than practices requiring consideration for these variables.

No decision was made on Hypothesis V as a result of a lack of available data. Hypothesis V states that firms operating in the same environment with different management philosophies tend to have different levels of efficiency. Firm efficiency was defined as the overall efficiency of an enterprise expressed in terms of outputs over inputs. The indicators used to measure firm efficiency were net profit, growth in profit, market share in the main product line, growth in market share, market price of company's stock, and growth in sales. Unfortunately, the majority of the firms in the sample either did not have these figures documented or were unwilling to disclose this information.
Conclusions

The comparative analysis of management philosophies, management practices, and management effectiveness of U.S. subsidiaries and Iranian firms indicated some significant similarities as well as differences. The major conclusions of this research, arrived at as the result of the analysis of the principal similarities and differences that appeared in Chapters V and VI, are presented below.

This section is divided into four parts. The first part deals with those conclusions which are associated with the Iranian environment. The second part contains conclusions which are related to management philosophy. The third part is devoted to conclusions associated with management effectiveness. Finally, the last part deals with conclusions which are associated with the management process.

Environment of Iran

Since the external environmental factors influences management process, management effectiveness, and firm efficiency, it is very significant to identify the key environmental factors and the nature of their impact. In
this research, the dominant environmental factors of Iran which bear on the operations of enterprises were identified as socio-cultural, political-legal, educational, and economic.

In regard to the socio-cultural environment of Iran, values held in different segments of the Iranian social structure were found to have a strong influence on management practices. They tended to become the basis of conduct in administrative affairs of an enterprise, and the criteria for policy formation. To the extent that some of those values found in the Persian culture tend to be congenial or hostile to effective managerial performance, they represent the most difficult and the longest lasting constraint to overcome. However, since Iran is going through a rapid process of industrialization, there is little doubt that given technologies and social conditions would affect some of those values in near future.

In regard to the political-legal environment of Iran, business laws tend to encourage business investment and expansion in order to broaden the industrial and agricultural bases of the country's economy. However, the firms are hampered by the fact that most business laws have not been formally written and codified. Conse-
quently, there exist a considerable uncertainty for firms which need to make long range planning and investment.

In regard to the educational environment of Iran, they affect—either directly or indirectly—every aspect of management practices. The most severe constraint appears to be the relatively high level of illiteracy among the population. Another factor is the Iranian educational philosophy with its emphasis on purely theoretical fields (i.e., philosophy, humanities, literature, and fine arts) and not enough on applied fields (i.e., engineering, physical sciences, and administrative sciences).

However, in order for a developing country, such as Iran, to industrialize at a moderate pace, there is a need for a careful appraisal of her educational system. The priority must be given to educating and training scientists, engineers, technicians, and administrators. To achieve this, the quality of high school education should be geared toward preparing qualified students for institutions of higher learning, and these institutions should provide training in scientific, engineering, and administrative fields with reasonable quality.

Economically, Iran is at a stage of transition, she stands on the threshold of moving from a predomin-
ately traditional society to the "take-off" stage.¹ Iran's economic strategy could be characterized as "positive nationalism," occupying a middle position between free enterprise and public ownership of resources. That is, it has a pragmatic approach for combining and synthesizing the activities of the private sector and the public sector for developmental purposes.

Iran is blessed with certain natural resources, particularly oil, to assist finance her ambitious economic development. In terms of availability of factors of production (information, materials, and energy), Iran is favorably endowed with large and varied resources of materials and energy. The critical shortage seems to be in the availability of information. Information here connotes the availability—in terms of both quantity and quality—of technical, scientific, and administrative expertise of a country. For example, there presently

¹This analysis is based on Rostownik Theory of economic development and growth. His model presents an evolutionary picture of economic development of all societies in terms of five categories: the traditional society; the preconditions for take-off; the take-off; the drive to maturity; and the age of high mass consumption. For further elaboration see W.W. Rostow, The Stages of Economic Growth (Cambridge: Cambridge University Press, 1960), pp. 4-12.
exists a shortage of skilled and semi-skilled workers, as well as engineers, technicians, medical staff personnel, educational staff personnel, and administrators.

The most difficult problem seems to be the shortages of qualified and competent managers at top, middle, and operating levels. This is due partly to the overall educational philosophy in Iran, and partly to the ownership pattern of Iranian industry with its inherent weakness in developing competent managers and administrators. As indicated in the Annual Report of IMDBI for the last year of the Fourth Plan:

Adequate financial and credit resources will be available to carry out the Plan (the Fifth) but the most serious shortage will be adequate in managerial resources which are requisite for effective use of men and materials. Experience has showed that competent, sensible, and thrifty management, in all phases of project implementation . . . makes billions of rials difference in costs and it constitutes, all too often, the difference between success and failure, or prosperity and bankruptcy . . . Iran's industry enjoys all sorts of advantages and favorable circumstances. But if over the next ten years it does not make drastic efforts to improve the efficiency of man, machines and money, it will not be able to maintain its due place in the forefront of the economy and it will not be able to deal with the ever-increasing factor costs and with the threat of internal and
external competitions which are bound to develop.2

Management Philosophy

The comparison in levels of sophistication in management philosophy of the U.S. subsidiary companies and Iranian companies indicated that, as a whole, American firms were more sophisticated in terms of their attitudes toward employees, consumers, suppliers, distributors, government, and community than the Iranian firms. As a group, American firms tended to be more consumer oriented and had a greater concern for their employees' development, education, and training than their Iranian counterparts. In regard to philosophy toward suppliers, Iranian firms exhibited a higher level of concern than American companies.

Both groups of firms scored the same mean in regard to their philosophies toward the government. However, it should be pointed out that subsidiary firms and local firms were under different set of controls from the government. That is, government regulations relating to foreign

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enterprise operations were different from those affecting local firms.

In regard to philosophy toward the community, there were no appreciable differences between American subsidiaries and local firms. One reason for the relatively high level of concern of American firms toward the community may be that these firms were very sensitive toward public opinions and it was imperative on their part to become active in community affairs.

The Iranian firms tended to have a higher level of concern for their distributors. The reason given was that smooth relationships with their distributors were absolutely necessary for these firms if they were going to survive in business.

Management Effectiveness

The comparison in levels of effectiveness of the U.S. subsidiary companies and Iranian companies indicated that, as a whole, American firms were more effective in terms of developing and maintaining an effective organization than the Iranian firms. In regard to the relationships between management philosophy and management effectiveness, the analysis of data indicated that there exist a positive relationship between levels of sophistication in management philosophy and levels of effectiveness.

As a group, American firms had a lower rate of
turnover than the local firms. It was clear from the data that although a firm's management philosophy had some influence on employee turnover, wage rates and working conditions were more influential factors.

In regard to employee absenteeism, there were no appreciable differences between American subsidiaries and local firms. Management philosophy, as an independent variable, has had some influence on the rates of absenteeism.

Both sets of firms seemed to have difficulty in recruiting high level management and technical personnel. The environmental variable affecting company's ability to attract and retain high-level manpower, in both sets of firms, were the lack of availability of adequate supply of technical and managerial talents in Iran.

There were no significant differences between U.S. subsidiaries and local firms in regard to employee morale and satisfaction. The analysis of data suggested that, as a whole, there exist a positive relationship between levels of sophistication in philosophy and employee morale and satisfaction.

The data regarding interpersonal relationships in organizational settings indicated that the level of
cooperation among employees in American subsidiaries was higher than that of comparable local companies. Analysis of data lend support to the notion that there exist a positive relationship between levels of sophistication in philosophy and levels of cooperative attitudes in organizational settings.

There were no significant differences between American companies and local companies in regard to their ability to adapt to their external environments. Management philosophy, as an independent variable, accounted in part for a company's ability to adapt to the external environments.

**Management Process**

Management practices of U.S. subsidiaries and Iranian firms were analyzed and compared in terms of managerial functions. They were defined as the way in which the manager of an organization performs his functions of planning, organizing, staffing, directing, and controlling. Moreover, an attempt was made to explore the possible relationships between management philosophy and management process.

In regard to the overall objectives of firms in the study, the majority of American and Iranian firms had
established long-term profitability as their ultimate goals. However, none of the firms had documented a quantifiable measure of effectiveness for long-term profitability.

The overall objectives of the majority of American firms were established by their parent firms. The president was the individual who formulated the objectives in the majority of the local firms. In general, documentation of objectives received greater attention among the U.S. subsidiaries than among the Iranian firms.

Data regarding the time orientation of planning and the nature of plans indicated that, as a group, the American firms were engaged to a greater extent in comprehensive, long-term oriented plans than their local counterparts.

The majority of American firms could be characterized as "decentralized" in structure. In the case of Iranian companies, the most characteristic feature of their structure was the centralization of authority and decision making in the top echelon of the organizations.

It was found that in more than half of the local firms the predominant assumptions of managers toward the workers were based on the Theory X approach. The managers of three American companies thought similarly of their
subordinates. There were two American and one Iranian firm in which the managers regarded their subordinates based on Theory Y assumptions. Moreover, analysis of data indicated that there was a positive relationship between levels of sophistication in philosophy and manager's perception of subordinates.

Among the U.S. subsidiaries, the dominant leadership style was participative. Among the local companies, the authoritarian and bureaucratic styles were the dominant patterns. It was found that firm's management philosophy has had some influence on the styles of leadership prevalent in U.S. subsidiary and local companies.

Analysis of data concerning formalization of job description programs suggested some differences among the American and local firms. For example, three American and two local firms had formal comprehensive job description programs, while one American and three local firms did not have any job description programs at all.

The available data on manpower management policies indicated that in half of U.S. subsidiaries and in two local firms, these policies were formally stated and documented. There were some indications that the levels of sophistication in management philosophy has had some influence on the nature of manpower management policies.
Analysis of data concerning standard setting and the basis on which these standards were established indicated that standards were set primarily by functional managers and executive committees in American firms. In the case of local firms, this task was performed primarily by top managers and functional managers. Moreover, U.S. subsidiaries seemed to be more objective in establishing performance standards than their Iranian counterparts.

Extent of Transferability and Applicability of American Management Knowledge

This inquiry was designed to investigate the potential for comparative studies in management. More specifically, it attempted to ascertain the extent to which management knowledge can be transferred effectively from one environment to another.

Reviewing the literature, it was found that there exist two schools of thought on transferability and applicability of management knowledge. Members of the "universalist school" contend that management is a universal process and, thus, is transferable across cultures. On the other hand, members of "cross-cultural school" argue that environmental factors, in a socio-cultural milieu, impede the effectiveness of management to the extent that they restrict its universal applicability.
One problem in the field of comparative management research is confusion over what is actually being transferred. That is, whether it is management philosophy, management practices, management policies, management techniques, or some other concept which is being transferred across cultural lines. This confusion is reinforced by the semantic problem because different researchers have used and defined key words (i.e., management philosophy, management practices, management concepts, and so forth) differently.

The findings of this research support the conclusion that there were statistically significant differences between management philosophies of managers of American and Iranian firms. Thus, it can be concluded that American management philosophy is not universally applicable but rather is culture-bound. The reason is that management philosophy is based on a system of attitudes, values, beliefs, and ethical factors which can be attributed to the culture of the country. Thus, a particular management philosophy which is applicable in one culture might not be appropriate and valid in a different cultural milieu.

In regard to management practices, the results

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3In this study, management practices were defined as the way managers perform their functions of planning, organizing, staffing, directing, and controlling.
showed that management functions employed in the American environment are also applicable to the Iranian environment. In other words, although there were some measurable differences in the way managers in American and Iranian firms performed their functions of planning, organizing, staffing, directing, and controlling; the functions themselves remained basically the same. Thus, the differences in management practices can be attributed to degree, scope, sophistication, and precision of how management functions are carried out and not to the underlying nature of these functions.

The comparison of the method of carrying out various managerial functions among the American firms and the Iranian firms showed that management practices that could be carried out without reference to employees' value systems, beliefs, and attitudes were more applicable than practices requiring consideration for these variables. In other words, management practices which tend to be "mechanics" have a greater degree of applicability across cultural lines than processes which tend to be "dynamics." The reason is that the higher the direct

\textsuperscript{4} Urwich has divided management process into what he calls "mechanics" and "dynamics." The "mechanics" of management are those concepts which can be analyzed while ignoring people as individuals, while the "dynamics" of management are the aspects of any managerial situation where people must be dealt with as individuals. For further analysis of this issue see Lyndall Urwick, \textit{Notes on Theory of Management} (New York: American Management Association, 1952), p. 7.
effect of a specific management practice upon the employees' values, beliefs, and attitudes, the more likely the practice will be culture-bound and be constrained by the socio-cultural factors of the environment.

Recommendations for Future Research

This study presented a conceptual framework designed for field studies in comparative management. The research project addressed itself primarily to investigate the relationships among management philosophy, environmental factors, management process, management effectiveness, firm efficiency, and system efficiency. That is, the frame of reference of this study was on a macro perspective, concentrating on identification of the effects of independent variables (management philosophy and environmental factors) on the intervening variable (management process); dependent variable (management effectiveness); and the end result variables (firm efficiency and system efficiency). Data was then collected in some systematic manner so that association between possible cause and effect relationships among the independent variables, dependent variables, and the end result variables could be empirically tested.

The framework, or model, used in this research
was based on a modified version of a model presented by Professors Negandhi and Estafen. The model proved to be very effective in isolating multiple cause and effect relationships and was suitable for utilizing verifiable definitions and measurements.

The first recommendation for future study is the continuation of current research in more countries of the world, with different socio-cultural milieu, to generate more information on determining the nature, scope, and impact of interaction between the related environmental factors and the transfer of technology and management. Efforts could be focused on identifying specific environmental factors—at a micro level—on management process, management effectiveness, firm efficiency, and system efficiency.

For example, the value system prevailing in a culture serves as standard, or behavioral code, for interaction among individuals and groups. This value system influences—directly or indirectly—the administrative

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behavior in organizational settings. Moreover, since value system tends to vary among the various countries and cultures, further research in more of the countries of the world is needed to help reveal the more general characteristics of the nature of effects of value system on management process.

The second recommendation for future research concerns with exploring the nature, facets, and scope of transferability of management philosophy and practices developed in a different culture (i.e., Japan) to the United States. Hypotheses can then be generated to test the effects of American environmental and cultural factors on transferability of home-country management philosophy and practices. That is, American firms can be compared with the home-country subsidiaries in terms of practices, effectiveness, and efficiency.

For example, ten Japanese subsidiary firms operating in the United States and ten American firms could be selected for participation in the study on the basis of their size and the nature of their products. Within these 20 firms, personal interviews could be held to identify the major factors in the American environment which affect business operations.
The thrust of research of this type goes well beyond the comparisons made and the conclusions suggested. The heart of the issue resides on the premise of whether a country with a different socio-cultural background can reach the maximum economic success without changing its managerial philosophy or renouncing its national characteristics. Japanese economic development offers a clear example of this intriguing issue.

The third recommendation for future research pertains to the design of models, or conceptual schemes, which are capable of isolating multiple cause and effect relationships. Model building is very crucial in comparative studies because of the number of variables involved and the complex nature of their relationships. Professor Gordon has expressed his views on the need for model building in comparative management in these words:

The dilemma that faces most of us when we aspire to do comparative studies, however, has to do with the construction of some kind of framework no matter how fragile even to get started. It might be fair to say that the framework itself may be the major hypothesis on which all others depend.

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There already exist a number of models, or conceptual frameworks, in the field of comparative management. These models differ in terms of levels of analysis, focus, assumptions, and areas of emphasis. However, as new evidence becomes available, there will be a need for empirical verification and development of a more comprehensive model, at a macro level, with the purpose of synthesizing the existing empirical findings to which the various approaches to comparative management have led thus far.
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BIBLIOGRAPHY

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APPENDIX I

MANAGEMENT PHILOSOPHY
MANAGEMENT PHILOSOPHY

A. Company's Philosophy toward Employees

Four Factors Evaluated

<table>
<thead>
<tr>
<th>Factor</th>
<th>Company's Attitude</th>
</tr>
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<tbody>
<tr>
<td>a. Top management's stated policy or philosophy concerning employee development.</td>
<td>1. Much concern, or categorize to</td>
</tr>
<tr>
<td>b. Employee's perception of the company's concern toward individual development.</td>
<td>2. Moderate concern, or</td>
</tr>
<tr>
<td>c. Prospective employee's image of the company.</td>
<td>3. Little or no concern</td>
</tr>
<tr>
<td>d. Public image of the company.</td>
<td></td>
</tr>
</tbody>
</table>

B. Company's Philosophy toward Consumers

Seven Factors Evaluated

<table>
<thead>
<tr>
<th>Factor</th>
<th>Company's Attitude</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Company's profit and service objectives - implied, expressed, and implemented.</td>
<td>1. Consumer as the King.</td>
</tr>
<tr>
<td>b. Consumer's image of the company and its products.</td>
<td>2. Consumers necessary to make profit.</td>
</tr>
<tr>
<td>c. Employee's image of the company and its profit objectives.</td>
<td>3. Consumers should take product.</td>
</tr>
</tbody>
</table>

d. Supplier's image of the company; its products and its profit objectives.

e. Distributor's image of the company; its products and profit objectives.

f. Stockholder's image of the company and its profit objective.

g. Company's pricing policies.

C. Company's Philosophy toward Distributors

Four Factors Evaluated

<table>
<thead>
<tr>
<th>Factor</th>
<th>Company's Attitude</th>
</tr>
</thead>
<tbody>
<tr>
<td>b. Marketing programs categorize and procedures.</td>
<td>to 2. Good relationship helpful.</td>
</tr>
<tr>
<td>c. Implied and expressed attitude of marketing executives toward the distributors.</td>
<td>3. Relationship a necessary evil.</td>
</tr>
<tr>
<td>d. Distributor's attitude toward the company.</td>
<td></td>
</tr>
</tbody>
</table>

D. Company's Philosophy toward Suppliers

Five Factors Evaluated

<table>
<thead>
<tr>
<th>Factor</th>
<th>Company's Attitude</th>
</tr>
</thead>
<tbody>
<tr>
<td>b. Implementation of policies.</td>
<td>to categorize</td>
</tr>
</tbody>
</table>
c. Programs and procedures of purchasing department of the company.

d. Purchasing agents' or executives' attitudes toward suppliers.

e. Supplier's evaluation of the company.

E. Company's Philosophy toward Stockholders

Five Factors Evaluated

Company's Attitude

a. Company's policy statement and implementation of the policies.

1. They are owners, masters; best public relation personnel.

b. Stockholders' evaluation of the company.

2. They are owners, masters.

c. Prospective investors' evaluation of the company.

3. They are financiers, profit-eaters.

d. The company's senior executives' viewpoint toward stockholders.

e. Actual programs and procedures of the stock department of the company.

F. Company's Philosophy toward Government

Five Factors Evaluated

Company's Attitude

a. Top executive's attitude toward government.

1. Good partner
categorize

2. Necessary evil
b. Company's participation in governmental policies.

c. Senior governmental official's attitude toward the company.

d. Program and procedure of the company's public relation department.

e. Speeches and press statements made by the company's executives on governmental affairs.

G. Company's Philosophy toward Community

Six Factors Evaluated

<table>
<thead>
<tr>
<th>Company's Attitude</th>
<th>1. Very much concern.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program's and procedures of the company's public relation department.</td>
<td>2. Some concern.</td>
</tr>
<tr>
<td>Top executive's attitude toward community.</td>
<td>3. Little or no concern</td>
</tr>
<tr>
<td>Company's participation in community affairs.</td>
<td></td>
</tr>
<tr>
<td>Company's contribution toward community chest, hospital facilities, and education.</td>
<td></td>
</tr>
<tr>
<td>Attitudes of selected community leaders toward the company.</td>
<td></td>
</tr>
<tr>
<td>Attitudes of selected educators (university professors) toward the company.</td>
<td></td>
</tr>
</tbody>
</table>

3. Government be damned
APPENDIX II

MANAGEMENT PROCESS
MANAGEMENT PROCESS

A. Planning

1. What are the major objectives or goals of this firm?

   ____ Profit
   ____ Market Share
   ____ Service to Community
   ____ Growth
   ____ Other (specify)

2. Who formulates the objectives of this firm?

   ____ President
   ____ Board of Directors
   ____ Executive Committee
   ____ Staff Committee
   ____ Other (specify)

   If by a committee, who are the members of the committee?

3. Are these objectives documented?

   ____ Documented
   ____ Partially documented
   ____ Not documented

4. Who formulates the objectives of your department?

   ____ President
   ____ Head of the department
   ____ Board of Directors
   ____ Executive Committee
   ____ Staff Committee
   ____ Other (specify)

5. Are the objectives of your department documented?

   ____ Documented
   ____ Partially documented
   ____ Not documented

6. Do you receive information regarding the objectives of this firm?
If yes, how do you receive this information?

--- Formally
--- Informally
--- Written
--- Orally

7. Do you communicate the objectives of your department to your subordinates?

--- Yes
--- No

If yes, how do you communicate this information?

--- Formally
--- Informally
--- Written
--- Orally

8. What is the orientation of your planning?

--- Long range planning (5 years or more)
--- Medium range planning (3 to 5 years)
--- Short range planning
--- Ad hoc basis

9. How often are they reviewed or revised?

--- Annually
--- Semi-annually
--- Quarterly
--- Ad hoc basis

10. How are these plans communicated?

--- Regular reports
--- Special reports
--- Confidential memos
--- Orally
--- Other (specify)
11. What information do you use in your planning?

___ Statistical forecasts
___ Industry reports
___ Government surveys
___ Historical information
___ Casual ideas
___ Other (specify)

12. Who participates in planning?

___ President
___ Senior executives
___ Junior executives
___ Operating managers
___ Other (specify)
B. Organizing

1. How many employees (management and non-management) are there in your company? _____

2. How many employees (management and non-management) are there in your department? _____

3. How are activities grouped in this organization?
   ___ Functional
   ___ Geographical locations
   ___ Product lines
   ___ Hybrid
   ___ Other (specify)

4. Is there an organization chart in existence?
   ___ Yes
   ___ No

5. Is there an organization manual in existence?
   ___ Yes
   ___ No

6. How many layers are in the organizational structure? _____

7. Are there any staff positions in this organization?
   ___ Yes
   ___ No

8. What types of authority do staff personnel have?
   ___ Line authority
   ___ Staff authority
   ___ Functional authority
   ___ Other (specify)

9. With regard to your own position, how well is the exact scope of the following defined?
   a. Authority
      ___ Very well
      ___ Adequately

b. Responsibility

- Very well
- Adequately
- Poorly
- Not at all

10. Are there any "service departments" in this organization?

- Yes
- No

11. To whom do they report?

- Top management
- Department heads
- Other (specify)

12. Do you receive orders from anybody beside your immediate superior?

- Never
- Sometimes
- Often

If sometimes or often, from whom?

13. Do you give orders to anybody beside your direct subordinates?

- Never
- Sometimes
- Often

If sometimes or often, to whom?
14. How many people do you supervise? ______

   Is this number:
   ___ Too small
   ___ Just right
   ___ Too large

15. How many people does your superior supervise? ______

   Is this number:
   ___ Too small
   ___ Just right
   ___ Too large

16. What use is made of committees in your organization?

   ___ Many
   ___ Some
   ___ None

   If many or some, for what purposes are committees utilized?

   ___ Plan
   ___ Recommend
   ___ Execute
   ___ Coordinate
   ___ Other (specify)
C. **Staffing**

1. Who makes personnel policy for your company?

   - [ ] President
   - [ ] Personnel manager
   - [ ] Staffing committee
   - [ ] Executive committee
   - [ ] Other (specify)

   If by a committee, who are the members of the committee?

2. Are these policies documented?

   - [ ] Documented
   - [ ] Partially documented
   - [ ] Not documented

3. Do you have a job analysis program?

   - [ ] Yes
   - [ ] No

   If yes, how is the program conducted?

   - [ ] Formally
   - [ ] Informally
   - [ ] Other (specify)

4. Who conducts the job analysis program?

   - [ ] Personnel department
   - [ ] Engineering department
   - [ ] Department heads
   - [ ] Other (specify)

5. To what levels of the organization does your job analysis program apply?

   - [ ] Senior executives
   - [ ] Junior executives
   - [ ] Supervisors
   - [ ] Technical personnel
   - [ ] Operators
   - [ ] Clerks
   - [ ] Other (specify)
6. What is the method that you use to estimate your manpower needs?

   ___ Manpower forecasting
   ___ Other (specify)
   ___ None

7. Do you use job description in your selection process?

   ___ Yes
   ___ No

   If yes, are these job descriptions documented?

   ___ Documented
   ___ Partially documented
   ___ Not documented

8. To what levels of the organization does your job description apply?

   ___ Senior executives
   ___ Junior executives
   ___ Supervisors
   ___ Technical personnel
   ___ Operators
   ___ Clerks
   ___ Other (specify)

9. What sources do you use to recruit your executives?

   ___ Colleges and Universities
   ___ Employment Agencies
   ___ Use of advertising
   ___ Internal manpower sources
   ___ Friends and relatives
   ___ Personal application
   ___ Other (specify)

10. What sources do you use to recruit your technical and professional personnel?

     ___ Colleges and Universities
     ___ Employment Agencies
11. What sources do you use to recruit your operators and clerks?

___ Employment Agencies
___ Use of advertising
___ Internal manpower sources
___ Friends and relatives
___ Personal application
___ Other (specify)

12. Do you use any types of tests in selecting your:

___ Senior executives
___ Junior executives
___ Supervisors
___ Technical personnel
___ Operators
___ Clerks

13. Who makes decisions to select executives?

___ President
___ Personnel manager
___ Functional manager
___ Selection committee
___ Executive committee
___ Other (specify)

14. Who makes decisions to select technical and professional personnel?

___ President
___ Personnel manager
___ Functional manager
___ Selection committee
___ Executive committee
___ Other (specify)

15. Who makes decisions to select operators and clerks?
16. What criteria do you use in selecting your executives?

- Education and training
- Practical experience
- Age
- Family ties
- Market contacts
- Recommendation from others
- Other (specify)

17. What criteria do you use in selecting your technical and professional personnel?

- Education and training
- Practical experience
- Age
- Family ties
- Market contacts
- Recommendation from others
- Other (specify)

18. What criteria do you use in selecting your operators and clerks?

- Education and training
- Practical experience
- Recommendation from others
- Age
- Other (specify)

19. What techniques are used in your personnel appraisal program?

- Periodic reports from supervisors
- Standard forms
- Reports from supervisors as needed
- No formal appraisal program
- Other (specify)

20. To what levels of the organization does your personnel appraisal program apply?
Senior executives
Junior executives
Supervisors
Technical personnel
Operators
Clerks
Other (specify)

21. How often is your personnel appraisal program undertaken?

Annually
Semi-annually
Quarterly
Other (specify)

22. How are the results of the personnel appraisal program utilized?

Basis for promotion
Basis for transfer and discharge
Determining training and development needs
Determining wage increases
Other (specify)

23. What criteria do you use for promoting executives?

Competence
Ability to get along with others
Education and training
Seniority
Personal considerations
Other (specify)

24. What criteria do you use for promoting technical personnel?

Competence
Ability to get along with others
Education and training
Seniority
Personal considerations
Other (specify)

25. What criteria do you use for promoting operators and clerical personnel?
26. Who makes promotion decisions for executives?

- President
- Executive Committee
- Personnel manager
- Functional manager
- Special promotion committee
- Other (specify)

27. If by a committee, who are the members of the committee?

28. Who makes promotion decisions for technical and professional personnel?

- President
- Executive Committee
- Personnel manager
- Functional manager
- Special promotion committee
- Other (specify)

29. If by a committee, who are the members of the committee?

30. Who makes promotion decisions for operative and clerical personnel?

- President
- Executive committee
- Personnel manager
- Functional manager
- Special promotion committee
- Other (specify)

31. Who makes hiring and firing decisions for executives?

- President
- Executive committee
32. Who makes hiring and firing decisions for technical and professional personnel?

- President
- Executive Committee
- Personnel manager
- Functional manager
- Special committee
- Other (specify)

33. Who makes hiring and firing decisions for operative and clerical personnel?

- President
- Executive committee
- Personnel manager
- Functional manager
- Immediate supervisor
- Special committee
- Other (specify)

34. Do you have any type of formal training program?

- Yes
- No

If yes, for what level?

- Clerks
- Operators
- Technical personnel
- Supervisors
- Junior executives
- Senior executives

35. Which types of training programs are utilized for which types of personnel?
36. Do you have a formal program for determining your training needs?

- Yes
- No

37. What types of financial compensation do you use for different types of personnel?

<table>
<thead>
<tr>
<th>Salary</th>
<th>Stock option</th>
<th>Bonus</th>
<th>Hourly wages</th>
<th>Piece rates</th>
<th>Profit sharing</th>
<th>Other (specify)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
38. How do you determine the rates of compensation for different job categories in your organization?

<table>
<thead>
<tr>
<th></th>
<th>Clerks</th>
<th>Operators</th>
<th>Technical personnel</th>
<th>Supervisors</th>
<th>Junior executives</th>
<th>Senior executives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job evaluation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary and wage surveys</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal considerations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recomendation of supervisor</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collective bargaining</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governmental factors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry wages</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

39. What kind of employee benefit programs do you have?

- [ ] Old age and disability insurance
- [ ] Medical insurance
- [ ] Paid vacations
- [ ] Pension plan
- [ ] Special bonuses
- [ ] Employee education expenditure
- [ ] Other (specify)

40. What is the percentage of the costs of employee benefits to total wage costs in your company? ________
D. Directing

1. Which of the following do you use predominately?
   
   ___ Make decision and announce it to subordinates
   ___ Ask subordinates for their opinion before making decision
   ___ Present problem and make decision with subordinates
   ___ Present problem and ask subordinates to make decision

2. Why do you use this style predominately?

3. Which of the following does your superior use predominately?
   
   ___ Make decision and announce it to subordinates
   ___ Ask subordinates for their opinion before making decision
   ___ Present problem and make decision with subordinates
   ___ Present problem and ask subordinates to make decision

4. Why do you think your superior uses this style predominately?

   How do you feel about the following statements?

5. "When I want something done well in my department, I have to do it myself most of the time."
   
   ___ Strongly agree
   ___ Agree
   ___ Neutral
   ___ Disagree
   ___ Strongly disagree

6. "When I want something done well in my department, I can trust my subordinates' performance."

---

7. "The average human being prefers to be directed, wishes to avoid responsibility, and has relatively little ambition."

___Strongly agree
___Agree
___Neutral
___Disagree
___Strongly disagree

8. "Leadership skills can be acquired by most people regardless of their particular inborn traits and abilities."

___Strongly agree
___Agree
___Undecided
___Disagree
___Strongly disagree

9. "A good leader should give detailed and complete instructions to his subordinates, rather than merely giving them general directions and depending upon their initiative to work out the details."

___Strongly agree
___Agree
___Undecided
___Disagree
___Strongly disagree
E. Control

1. Do you have a budgeting system for your organization?
   ___ Yes
   ___ No

2. What functional areas are covered by your budgeting system?
   ___ Production
   ___ Sales
   ___ Distribution
   ___ Finance
   ___ Other (specify)

3. What types of controls are used in production department?
   ___ Quality control
   ___ Quantity control
   ___ Cost control
   ___ Equipment maintenance control
   ___ Inventory control
   ___ Other (specify)

4. How do you set standards in production department?
   ___ Past performance
   ___ Performance in comparable firms
   ___ Master budget
   ___ Statistical analysis
   ___ Ad hoc
   ___ Other (specify)

5. Who sets standards in production department?
   ___ Production manager
   ___ Controller
   ___ Special committee
   ___ Other (specify)

6. How do you set standards in sales department?
   ___ Past performance
   ___ Performance in comparable firms
   ___ Statistical analysis
7. Who sets standards in sales department?

___ Sales manager
___ Senior executives
___ Controller
___ Special committee
___ Other (specify)

8. How do you set performance standards for operators and clerks?

___ Time and motion studies
___ Past performance
___ Performance in comparable firms
___ Ad hoc
___ Other (specify)

9. Who sets performance standards for operators and clerks?

___ Direct supervisor
___ Department manager
___ Controller
___ Special committee
___ Other (specify)

10. Who discovers deviations?

___ Department manager
___ Direct supervisor
___ Controller
___ None
___ Other (specify)
APPENDIX III

MANAGEMENT EFFECTIVENESS
# MANAGEMENT EFFECTIVENESS

## Factors and Points

<table>
<thead>
<tr>
<th>Factor</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Employee turnover</td>
<td></td>
</tr>
<tr>
<td>a. 0-5%</td>
<td>10</td>
</tr>
<tr>
<td>b. 6-11%</td>
<td>5</td>
</tr>
<tr>
<td>c. 12% and more</td>
<td>0</td>
</tr>
<tr>
<td>2. Employee absenteeism</td>
<td></td>
</tr>
<tr>
<td>a. 0-5%</td>
<td>10</td>
</tr>
<tr>
<td>b. 6-11%</td>
<td>5</td>
</tr>
<tr>
<td>c. 12% and more</td>
<td>0</td>
</tr>
<tr>
<td>3. Management ability to attract and retain high-level manpower</td>
<td></td>
</tr>
<tr>
<td>a. Able to attract and retain highly trained personnel</td>
<td>10</td>
</tr>
<tr>
<td>b. Able to attract and retain moderately trained personnel</td>
<td>5</td>
</tr>
<tr>
<td>c. Not able to attract and retain even moderately trained personnel</td>
<td>0</td>
</tr>
<tr>
<td>4. Employee morale and satisfaction in work</td>
<td></td>
</tr>
<tr>
<td>a. Excellent morale and highly satisfied</td>
<td>10</td>
</tr>
<tr>
<td>b. Average morale and somewhat satisfied</td>
<td>5</td>
</tr>
<tr>
<td>c. Poor morale and highly dissatisfied</td>
<td>0</td>
</tr>
<tr>
<td>5. Interpersonal relationships in organizational settings</td>
<td></td>
</tr>
<tr>
<td>a. Very cooperative</td>
<td>10</td>
</tr>
<tr>
<td>b. Somewhat cooperative</td>
<td>5</td>
</tr>
<tr>
<td>c. Poor cooperation</td>
<td>0</td>
</tr>
</tbody>
</table>

---

6. Departmental relationships (Subsystem relationship)
   a. Very cooperative 10
   b. Somewhat cooperative 5
   c. Poor cooperation 0

7. The executive's perception of the firm's overall objectives
   a. Total optimization (achievement of the firm's objectives) is perceived as most important 10
   b. Suboptimization (achievement of the departmental objectives) is preferred 5
   c. Achievement of the departmental objectives is ultimate goal 0

8. Utilization of high-level manpower
   a. Policy-making and future planning 10
   b. Coordination with other departments 5
   c. Routine work, day-to-day work and excessive supervision with subordinate's duties 0

9. Organizational effectiveness in adapting to the external environments
   a. Able to adapt without much difficulty 10
   b. Able to adapt partially with some difficulty 5
   c. Not able to adapt 0
FIRM EFFICIENCY

Obtain the following information:

1. Net profits of firm for the last five years ______
2. Gross profits of firm for the last five years ______
3. Annual rate of growth in profits in the last five years ______
4. Annual average rate of growth in profits for industry in the last five years ______
5. Rate of return on equity in the last five years ______
6. Average rate of return on equity for industry in the last five years ______
7. Gross sales of firm for the last five years ______
8. Gross sales of industry for the last five years ______
9. Annual rate of growth in sales for the last five years ______
10. Annual average rate of growth in sales of industry for the last five years ______
11. Market share of the firm in the main product line ______
12. Annual rate of growth in market share for the last five years ______
13. Market price of company's stock ______
14. Annual rate of growth in market price of stock for the last five years ______
APPENDIX V

RESEARCH INSTRUMENTS
June 19, 1975

Ministry of Economics and Finance
Tehran, Iran

Dear Sir:

Mr. Ali R. Parsinia from Iran is a doctoral candidate in the department of management at Louisiana State University, Baton Rouge, Louisiana.

Mr. Parsinia is doing field research on his dissertation and is interested in information and data on management practices of American and Iranian firms in Iran. We would appreciate it if you would give him your kind assistance and cooperation.

Many thanks in advance.

Yours sincerely,

Leon C. Megginson
Professor of Management
June 19, 1975

Ministry of Science and Higher Education
Tehran, Iran

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Yours sincerely,

Leon C. Megginson
Professor of Management
APPENDIX VI

COMPUTER PRINTOUTS
<table>
<thead>
<tr>
<th>OBS</th>
<th>COUNTRY</th>
<th>ID</th>
<th>MANGOH</th>
<th>EFFECT</th>
</tr>
</thead>
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<td>1</td>
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</tr>
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### Statistical Analysis System

#### Means

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<th>Effect</th>
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**Overall Means**

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### Statistical Analysis System

**Analysis of Variance for Variable MAKPH**

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**Probability > F**

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VITA
VITA

Ali Reza Parsinia, the son of Hassan Parsinia and Maryam Hezar, was born in Shiraz, Iran on April 26, 1945, and was graduated from Nemazee High School, Shiraz, Iran, in June 1963.

The writer left Iran in February, 1964 for further studies in the United States, and registered at Louisiana State University in Baton Rouge, Louisiana where he received the Bachelor of Science Degree in Mechanical Engineering in August, 1968.

From 1968 to 1969, the writer worked with Ocean Drilling and Exploration Company in New Orleans, Louisiana as a Mechanical Engineer. He continued his education in Depaul University and Loyola University in Chicago, Illinois, and Louisiana State University in Baton Rouge, Louisiana. He received the Master of Business Administration Degree from Louisiana State University in December, 1972.

Since the Spring of 1973, the writer has been a graduate student in the Department of Management at Louisiana State University. He was Research Assistant
from 1973 to 1974, Teaching Assistant from 1974 to 1975, and since the Fall of 1975 he has been serving as an Instructor in the Department of Management at Louisiana State University. He is presently a candidate for the Doctor of Philosophy Degree in Management.
EXAMINATION AND THESIS REPORT

Candidate: Ali Reza Parsinia

Major Field: Management

Title of Thesis: Transferability of Management Philosophy and Practices to Developing Countries: A Case Study of American and Iranian Industrial Enterprises

Approved:

[Signatures]

Major Professor and Chairman

Dean of the Graduate School

EXAMINING COMMITTEE:

[Signatures]

Date of Examination:

April 19, 1976