

1st International Conference 'Economic Scientific Research - Theoretical, Empirical and Practical Approaches', ESPERA 2013

Contributions to the history of management consulting in communist Romania

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Abstract

This paper offers an overview of the development of management consulting in Romania, exploring some lesser known aspects of its evolution in the communist period. The research is focused on exploring the main historical facts of this evolution, trying to capture the elements of the struggle to develop a profession with many capitalist traits in a communist economy. After a brief presentation of the main aspects of local consulting before the end of World War II, a few important facts and ideas are presented regarding the profession in the first few years of the communist regime. Then, much of the paper is focused on the results of the historical research on the issue, in the more enlightened period of the 1960's and 1970's. The article ends with a discussion of the factors that inhibited the development of management consulting in Romania in the analyzed period.

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Selection and peer-review under responsibility of the Organizing Committee of ESPERA 2013

Keywords: management consulting; communism; centralised economy; CEPECA; organization; Taylorism;

1. General aspects

In the first years of the past century management consulting was a young profession. Very recently appeared in the United States, consulting had also began to develop in Europe. The predominant current of thought among those

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concerned with the history of consulting indicates Taylorism as the main point of its origin, and the first professional activities seem to be located somewhere around 1890. However, there are different points of view (Kipping, 1999; McKenna, 2006), which identify another profession path, based on some legislative changes occurring in the U.S., changes that created the conditions for the development of consulting firms. According to this view, the origin of modern consulting can be placed in the period of the 1920s and 1930s. Some authors, such as (McKeena, 2006) and (O'Mahoney, 2010) refer mainly to the Glass-Steagall Banking Act of 1933, US legislation item requiring a clear separation between commercial and investment banking. Due to this act, commercial banks were no longer allowed to have non-banking activities, including the management consulting activities they conducted, thus opening the market for independent consulting firms (McKenna, 1995). This way, while the initial root of consulting, based on the principles of scientific management, aimed at increasing efficiency in production, the new root (from which, incidentally, originate the most famous consulting firms today) was based on more diverse strategic and organizational approaches.

Taylorism was continued in the US after the death of its initiator (1915) by several other pioneers of scientific management (perhaps the best known of these are Frank and Lillian Gilbreth). These ideas have impressed many of those who came into contact with them and, therefore they soon began to be known and practiced in Europe. It should be noted, however, that early in the 20th century, the import of the US version of scientific management in Europe has been limited by the emergence of local approaches, which were generally preferred. For example, (Kipping, 1999) mentions the dominance Henry Fayol's ideas in France, the British employers' preference for industrial psychology, the existence of a system for the study of labor in the German industry. The implementation of these ideas in the concrete situations of factories was often conducted with the help of consultants. Frequently, these consultants were even those who had developed the particular efficiency system or their disciples.

The European tradition of management consulting is mixed, the firms of Taylorist inspiration resisting more than in the US, even after the Second World War (Wright, 2000). After that, although in the West of the continent they were affected by the competition of modern American firms, a sort of transplant of Taylorism was realized in the communist countries in Eastern Europe. Scientific management presented some attraction for the Communists, generating mixed feelings, having its importance recognized, but at the same time, the Communist highlighted its misuse by the capitalists (Lenin, 1965; Bîrlea, 1970). Taylor's work had notable impact on Lenin, but Stalin preferred Stakhanovism. Although both approaches were aimed at increasing productivity, the major difference was that Taylorism presumed that change must come from the managers of the company, while Stakhanovism promoted change coming from the workers.

In the 1920s and 1930s, consultants from Western Europe began to arrive in Central and Eastern Europe (Gross et al., 2004). These countries, in which even if later, under communism, consulting activities largely disappeared, managed to preserve the germs of an inchoate consulting culture. In Hungary, for example, "Taylor Office" was advertised in the 1920s, promising savings by the organization, mechanization and rationalization processes (Poór and Milovecz, 2011). Later, in neighboring country, besides Taylorist consultants others also appeared, such as Bedaux company, the Dutch company Indorag or the Hungarian Evolut, based on German models (Poór and Milovecz, 2011). The Second World War, however, put a brutal end to the development of consultancy in the region. After the war, especially until the 1960s, consulting had to face a hostile political environment.

2. The embryonic stage of consulting in Romania

Some information is known about the Taylorist experiments conducted by Edmond Landauer in 1907 at the Romanian weaving mill in Pitesti (Ciumara, 2013), but all the data indicates that he made the experiments from the position of plant manager, not as external consultant.

Despite extensive searches, we have not identified in the interwar period in Romania any consulting activities similar to those in other countries in the region. At that time, in Romania papers and books were written about Taylorism or Fayolism, but without reference to the use of advisors and external experts to assist in the application of management principles in this area. In a similar manner, other aspects of scientific organization and management of enterprises were discussed in the economic literature, especially with the character of presenting discoveries or describing best practices from other countries.

3. The Communist period and the emergence of the first rudiments of local consulting

After the communists took over power in Romania there was a period of several years (1944-1948) until all enterprises in the country were nationalized. During this period, in order to gain some control over them, "workers' control" was been established, restricting the freedom of action of the legitimate managers of the companies. In 1948, businesses were nationalized and Party people were appointed to manage them, generally workers and political activists with no specific training or experience. This was the moment when transition from a market to a centralized economy really started. Gheorghiu-Dej's view on the subject (Gheorghiu-Dej, 1948) is eloquent, when he observed that after nationalization "companies under the leadership of the new manager-workers liquidate the state of disorganization in which they had been left by the capitalists". To attenuate, to a certain extent, the strength of this claim, we should say that when referring to the state of disorganization of companies, Dej was not concerned so much with the capitalist management system but with the perceived sabotage of the economic recovery of the country after the war. The thesis was that business owners, after the Communists had gradually laid hold of the country, sabotaged their own companies, to force the return of the old regime. For the subject of the present study, the main idea that emerges from this situation is that **the previous management system, which could have lead to the emergence of some classical forms of consulting, following the model of the Western countries, had been completely abandoned.**

We should mention, however, the existence in this period of a certain type of economic consulting (more at a macroeconomic level), provided by the so-called Soviet advisers, who were meant to oversee the country's economic subordination to the USSR. In the Romanian economy these advisors have worked on different levels, not only economic but also military and technical. While their presence was certainly important, it would however be excessive to consider these advisors as genuine consultants.

Management consulting began to be known as such in Romania only from late 1960s; until that time, references to this activity are almost non-existent. In the first decades of communism, the concept of consulting made no sense in the newly centralized organization of the economy, in which companies were meant to simply implement decisions coming from the center, not to come up with their own solutions to the organization problems [10]. However, gradually, the need for better organization in the management of companies began to be realized. Thus, the following quote from Ceausescu (taken from Cigusievici and Dumitrescu, 1970) was often used at the time to justify the necessity of studying management techniques: *"The party starts with the principle proven by life that forms and methods of management and social organization are not immutable, set once and forever, that they have to be continually improved, in step with the changes that occur in life"*. Although currently such a statement could easily pass unobserved, during that period this attitude had a much greater weight.

4. Contextual elements

4.1. Internal context

Romania of the late 1960s was quite relaxed and optimistic. Ceausescu, the new leader of the country, enjoyed a fairly broad support, both internally and externally. He adopted an independent policy (from the Soviet Union) and many Romanians felt entitled the look with hope to the future of their country and their own. Also at international level Ceausescu became somewhat of a celebrity and Romania a country that gave a positive example within the Communist Bloc. The young Romanian leader gave the impression that he will continue the liberal reforms and opening to the West that started at the time of his predecessor, Gheorghe Gheorghiu-Dej. Ceausescu visited Prague in August 1968 and created the impression that he was totally in agreement with the country's political liberalization and reforms on democratization of the country and economic decentralization. When, only five days after his visit to Czechoslovakia, the USSR and allied countries invaded this country, Ceausescu was the only communist leader who strongly condemned the action. This was, moreover, the moment when its internal and external support peaked. In this context, Ceausescu received in 1968 the visit of Charles de Gaulle (who awarded him the Legion of Honor), and in 1969 the visit of Richard Nixon. Another US president, Gerald Ford, visited Romania in 1975. In 1970 he was received by French president Georges Pompidou and by US President Richard Nixon (visit repeated three years later). He was, in fact, the first communist president that visited the US and also the first that received the visit of a

US counterpart. Later on, yet in another stage of his leadership (in 1978), Ceausescu was received by Queen Elizabeth II of Great Britain, which granted him the honorary title of Knight. In the same year he is received in an official visit by president Jimmy Carter.

In 1967 Nicolae Ceausescu became President of the State Council of the Socialist Republic of Romania. Romania began to develop trade relations with Western countries, from which it acquired modern technology and which it wanted to turn into new markets for local products. This was the year in which in Constanta a Pepsi-Cola factory was opened, its products being promoted by the slogan "Pepsi – impetuosity and energy". Romania restored diplomatic relations with West Germany. A year before it had signed a contract with Renault and in 1968 started production of the first model of car Dacia, under license from Renault. This was the context in which in Romania it became increasingly obvious that new technology was not sufficient to increase production and productivity. It seemed that to something had to be changed in the way activity was organized in the companies, in selecting and preparing those occupying management positions. **The extensive development of industry had to be completed by a corresponding increase in the quality of managerial activity.**

4.2. *External context*

Important for this study, in addition to the political and economic context, is the fact that in the late 1950s and the 1960s, the major US management consultancies began the actual export of their organizational know-how. They had set up offices in countries such as France, Germany, UK, Italy or Switzerland (McKeena, 2006). (McKeena, 2006) argues that in fact this was the third wave of managerial know-how transfer from the US to Europe. The first wave was in the 1920s and 1930s, when Taylorism and Fordism were exported, and the second wave was in the years after the Second World War when, through the Marshall Plan, the US government sent in Europe experts in organizing enterprises, with the mission to advise local managers. These companies had not stepped in Europe in a completely virgin land. Local consulting firms also existed. The difference was that European consultancies were, let's say, of the first generation, with strong Taylorist influences, while American consulting firms that came in this period in Europe were of the second generation, not having Taylorist origins (McKeena, 2006). In the Europe of the 1950s and 1960s local consultancies with Taylorist approaches still dominated, creating opportunities for American companies to come up with something new in the market. McKinsey, for example, opened its London office in 1959 and the Geneva office in 1961. Over just a few years, also in Geneva, Romania would sign an agreement with the UN that would determine the emergence of modern management consultancy in the country. Between the two issues there is probably an indirect link. We can imagine that in years in which UN experts suggested the training of local consultants in Romania, they based their advice on something that was regarded as avant-garde in Western Europe. Of course, it was hard to just transplant the western experience, given that over there American consultancy heavily relied on the US client firms that expanded to Europe and on the offer of services aimed at the decentralization of large companies (Kipping, 199; McKeena, 2006). Or, in Romania American firms were not to be found and the decentralization of domestic enterprises was not an issue opened for discussion... Maybe this was the reason why the local preference was rather for Taylorist methods of consulting, pertaining to the scientific management, paying special attention to the techniques of observation, analysis and improvement of work processes.

5. **Local evolutions in the field of management and consulting**

In this internal and external context, at the beginning of 1967 the Central Committee of the Romanian Communist Party (C.C. al P.C.R., 1967) discussed a plan of measures to tackle the problems of scientific organization of production and labor in industrial companies and regarding international economic, technical and scientific cooperation. The formation of some regional groups was prefigured, which were to provide assistance to companies in their scientific organization. The issue of management thus became topical.

Almost at the same time the Center for the Training of Enterprise Cadres (CEPECA) began to operate. It was set up in partnership with the UN, as a postgraduate institution, subordinated to the State Committee for Labor and Wages (CMCS), an institution that dealt with labor issues. Initially, in this center programs with general training character were organized in the field of management and organization of enterprises (programs such as General Management, Manufacturing, Finance and Accounting, Commerce or Labor Study) and training and development in

computer science. A good development of the center's activities was achieved and soon relationships were established with many international institutions from the field of management. After activities began *it was found that the training of better managers was not sufficient, but there was also a need for trusted advisors of these managers*. It was observed that companies have started sending all kinds of requests to CEPECA related to their management and organization issues. In addition, due to some international internships of the center's students, *it was learned what consulting is and how it was organized in other countries*. As a result of these things it was decided to also create a core consultancy unit at CEPECA (Bîrlea, 1970). It should be noted that even before this, in most companies in the country scientific organization of production and labor offices, a kind of internal consultancy centers, had already established.

Thus, from the second half of 1969, the special unit for Research and Training of Consultants was created, which would provide specific education to consultants. Previous to the organization of this unit, teams from other programs had occasionally offered consultancy services to various companies. With the establishment of the special unit, however, these consulting activities were centralized and expanded. With regard to teaching, in the first phase it was only intended to train generalist consultants, who would deal with the major managerial problems of enterprises. In the second phase their specialization was also pursued, for example in the field of human resources.

Separately from the CEPECA activities, in 1969 the Central Committee of the Romanian Communist Party (C.C. al P.C.R., 1969) approved a collaborative project with the US Ford Foundation, which provided, among other things, research and training of personnel in management issues. Through this section of the project it was proposed to train management specialists, such as university professors and councilors, who would later teach management or assist economic and social organizations. It was stated that this project would complement the work of the CEPECA, being explicitly mentioned the objective *to train highly qualified expert consultants for studying and solving complicated problems of management that may arise in enterprises or institutions*. Unfortunately, this project did not develop into something comparable to CEPECA. Among the proposed activities we have not been able to find any further references related to the consulting aspects, only to the management training (Capodilupo, 1984).

Management consultancy activities, as they developed in the period of 1967-1989, should be analyzed while understanding the structure of the Romanian economy and the political environment from that period. The economic life of the country had a strongly centralized character. Because of this reason, consulting services were not normally provided by consulting firms or independent consultants (although there have been instances in which consultants have provided services directly to companies, based on an individual contract), but rather by means of institutions and organization offices, departmental training centers, institutes etc. Offices dealing with economic and social organization operated at the county level and in some cases in industrial centers with smaller administrative importance. Their duties included the initiation of actions to promote modern methods of organization and management, analyzes, studies and projects of the organization, specialized assistance to companies. The work of these offices was coordinated by the Economic and Social Organization Council which, *inter alia*, was responsible to act to promote modern management techniques in the activity of organizing the enterprises (Babe et al.1985).

In June 1971 Ceausescu visited China and North Korea and returned strongly impressed by the implementation forms of communism in these countries. A result of these visits where the soon launched "Theses of July", which would mark a fundamental change in the direction in which the country was heading. These theses, essentially a set of seventeen proposals, were communicated to the Executive Committee of the Romanian Communist Party in a speech held on July 6, 1971. The communication itself was entitled "Proposals for measures to improve the ideological and political work of Marxist-Leninist education of party members, of all working people". The first proposal emphasized the crucial role they must be played by the single party in all political and educational activities, including by increasing combativity against bourgeois ideology influences. A second proposal focused on redefining the role (read "politicization in an even higher degree") of the "Stefan Gheorghiu" Academy. This Academy had been established in 1945 under the original name of Workers University of PCR and represented the political university which provided ideological training of students. From the proposal it followed "the improvement of curriculum", which in the case of consulting courses meant the beginning of decline.

In March 1971 a law appeared (Law no. 2/18.03.1971), regarding the professional training of workers. Following the mentioned visits and the new vision on the political and ideological activity it was decided to amend this law, which happened in December 1971 (Decree No. 476 of 20 December 1971). Basically, it was stated that training of

managers "in the management and scientific organization of production and labor" will be conducted within the "Stefan Gheorghiu" Academy. As a result, some activities and programs from CEPECA were transferred to the structure of the Academy and in the taught programs training modules in Marxist-Leninist ideology were included (the initial share of ideology in the taught content was of 10%, then more and more - by 1975 there was an estimated 20-25%) (Agapescu, 1975). After the 31st of May 1972, date that marked the end of the five years agreement with the UN for the training center, foreign assistance for the CEPECA project ceased. Thus ended the official and independent existence of CEPECA. We could not find accurate data in this regard, but it seems reasonable to approximate to 300 the number of consultants trained through the CEPECA program (Sârghi, 2012), which complements the information that until 1974, in 5 years of the training program for consultants there were about 150 graduates (Sârghi, 1974). From these graduates were mostly gathered the consultants that after 1989 founded the Association of Management Consultants in Romania (AMCOR).

These were the main coordinates of the emergence and relative development of management consultancy in Romania in the 1960s and 1970s. After this period, at a national level there were no other noteworthy events in the field but rather a gradual dilution of imported and locally developed knowledge. Discussions continued about the benefits of using consultants, even to the eve of the revolution of 1989 (Nicolescu and Verboncu, 1986), but they had become somewhat sterile. This field did not have the chance to develop more in the centralized economy that existed in Romania in those years. In the meantime, however, consulting developed more in other countries from the region. (Schödl, 1991) mentions the occurrence of a consulting firm in Bulgaria in 1987 (ESCORT -System) and a company in Estonia, also in 1987 (Mainor Konsultant). In Poland appeared OTREK center of management and consulting in 1984. Such centers already existed in Poland and Yugoslavia, also established with UN assistance and negotiations were carried out also with the governments of Hungary and Bulgaria. Yugoslavia showed greater openness and continued with a new project in 1976 in which the renowned consulting firm Arthur Andersen became involved (Radatz, 1991).

Conclusions

As mentioned earlier in the paper, local consulting had significant Taylorist influences. In addition, many other differences existed compared to the Western European current of management consulting, much of it due to the significant differences in economic systems, and also the lack of sufficient tradition in the field, necessary to allow the appropriate crystallization of various essential elements of the profession. Here, the idea of diagnostic analyses caught very well, since it was considered that it helped to achieve *a deep and thorough knowledge of actual reality from social economic enterprises* (Dumitrescu, 1981). Consultants were found to have a major role in the design of this diagnostic analysis and partly in the development of solutions, but in contrast to the way in which consultancy is used in other regions, they were not included in the implementation and maintenance stages. However, consultants were largely perceived as specialists in performing these analyses. But reaching the notion of specialist it should be noted that there were some confusion regarding the understanding of the qualification and specialty of consultants. At one point they are called directly "generalist specialists" (Dumitrescu, 1981). After all, such clumsiness derives from the incomplete development of the profession. Such elements were also abundant subsequently, in the 1990s, when the development of consultancy resumed in Romania.

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