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Senate

NEED FOR CHANGE IN AMERICAN BUSINESS MANAGEMENT

Mr. TSONGAS. Mr. President, I would like to share with my colleagues a commentary on the important work being done by two professors at the Harvard Business School, Robert H. Hayes and William J. Abernathy. This feature story in the May 30 issue of the New York Times describes their efforts to awaken American business management to the need for change in current management techniques. I ask to have the story printed in the RECORD.

The story follows:

It is a long way from the manicured grounds of the Harvard Business School to the sweat and grime of an assembly line. Most of the students who emerge from this elite campus for choice jobs in industry will come no closer to steel mills than the case studies they dissected. But from this cloistered world, two professors, Robert H. Hayes and William J. Abernathy, have come forth with a stream of articles and ideas that are beginning to reshape the thinking of American business about why the nation's bedrock industries, such as autos and steel, have withered in the face of foreign competition.

The two men's teachings are challenging what is taught in the best business schools, promulgated by armies of consultants, and honed to a high polish at such citadels of management as the General Electric Company. With some success, they are chipping away at such notions as blaming the ills of American industry on heavy-handed regulation, the avarice of labor unions, the decline of the work ethic, the oil crisis or the Japanese.

Instead—or so the Hayes-Abernathy thesis contends—we have found the enemy, and it is us. The two business scholars argue that the best in American management has gone seriously astray. They teach that American management doctrine has drifted away from basics and neglected the factory floor and the assembly line—the front lines. That neglect and an excessive concern for short-run profits explain much about the failings of American industry, they say.

Their thesis is penetrating the offices of corporate America and finding a receptive audience, particularly in those industries suffering the most. "Hayes and Abernathy are insightful writers that lead us to do a great deal of introspection," said James K. Bakken, vice president of operations staff at the Ford Motor Company. "They were helpful in saying, 'Gentlemen, you may have your eye on the wrong ball.'"

"Abernathy's ideas have led the way to some of the changes in our thinking in how we face the Japanese challenge," said Richard F. Davis, manager of constituency communications at General Motors. "We were looking for things that Abernathy pointed out might help us in this serious situation with the Japanese."

What Bob Hayes and Bill Abernathy are saying flies in the face of accepted wisdom. These days corporate managers are taught, as the dominant approach, that big corporations, whatever their nature, whatever they produce, can and should be managed like an investment portfolio. Their numerous divisions should be seen mainly as so many possible investments competing for scarce funds.

Some businesses are to be invested in, others harvested for their cash. All are held strictly accountable by the common yardstick of the return they earn from the resources they consume. If a business falters, it becomes an immediate candidate for abandonment, in favor of some pursuit with a greater short-term profit.

Mr. Hayes and Mr. Abernathy contend that this approach breeds caution through an overdependence on analytical detachment—what they call "managerial remote control." They say it is an approach that exalts financial analysis, not line operations. It rewards executives who see their company primarily as a competing set of rates of return, who manage by numbers and computer printouts.

Further, they say, it is a seductive doctrine that promises the bright student a quick path to the top and that piles its rewards on executives who force through impressive short-term performance, at indeterminate cost to long-term health. Fearing any dip in today's profits, American companies keep research and technology on short rations, skiming the investment critically needed to insure competitiveness tomorrow.

Bob Hayes, who is 45 years old, and Bill Abernathy, 48, are an academic odd couple—Hayes is logical and methodical, Abernathy is free flowing and inventive—who made their mark when they collaborated on what has become a classic article in management literature. The article, "Managing Our Way to Economic Decline," which appeared in the July-August 1980 issue of the prestigious Harvard Business Review, expressed the conviction that American managers had fallen into a self-defeating preoccupation with short-term profits at the expense of long-term bets on technology.

The article brought a response unlike anything else in the Review, before or since. "That article received more attention than anything else published in the Review," Alan M. Kantrow, an associate editor at the Review, recalled. "They were willing to stand up and say the emperor has no clothes."

The article was the beginning. Since then, in packed courses at the business school, in seminars with corporate executives, and in separate articles in the business review, often with other co-authors, Mr. Abernathy and Mr. Hayes have pressed their independent ideas and interests.

Mr. Abernathy has delved deeper into the auto industry. His research enabled him to put a number on the "landed cost advantage" of Japanese cars—about $1,500 a vehicle—a finding that was seized upon by the Department of Transportation, by Detroit and by the United Automobile Workers. "Prior to that, no one realized the extent of the Japanese cost advantage," said Mr. Davis of General Motors.

Mr. Hayes has taken the message into the corporations, where he generally finds an attentive reception.

At TRW, for instance, where Mr. Hayes conducted a series of executive seminars, Richard A. Eastburn, director of management development, says that the days when managers made short-term gains by milking assets are over, and that promotions are being made more slowly to give employees more experience before moving up. Mr. Eastburn credits Mr. Hayes as being "another voice [who] added a great deal more substance than others did before."

At General Electric, where Mr. Hayes has conducted seminars and led its executives on tours to Japanese factories, the noted emphasis on financial techniques is giving way to new attention to technology and improved production. Individual manufacturing units are deciding what Japanese techniques can be adapted to their own setting. "The manufacturing people are the most results-oriented people; you don't sell them easily," said Richard P. Kennedy, communications manager in G.E.'s manufacturing consulting group.

More recently, Mr. Hayes and Mr. Abernathy have turned their eye on differences between the American and Japanese manufacturers and have made numerous trips to Japanese factories. In separate articles, they have skeptically questioned the prevailing explanations of the Japanese advantage. As the fortunes of the American automobile industry continue to sag, their work has gained wide attention in Detroit.

Where American business executives argue that the Japanese advantage is largely rooted in factors unique to Japan—lower labor costs, more automated and newer factories, strong government support and a homogeneous culture—Mr. Hayes and Mr. Abernathy say nonsense. They assert that the key difference lies in other factors, which American business could readily match.

The Japanese factory, Mr. Hayes notes in his writings, is not the prototype of the future that many American businessmen believe, but rather a present-day factory doing simple things well. The Japanese succeed because they pay attention to such basics as a clean workplace, preventive maintenance for machinery, a desire to make their production process error-free and an attitude that "thinks quality" at every stage in the production process.

Contrast this with American factories that are sloppy, where machines are overworked and abused, where quality is viewed as a barrier to lowered production costs, where defects are ignored and where management and workers are adversaries.

"We must compete with the Japanese as they do with us: by always putting our best resources and talent to work doing the basic things a little better, every day, over a long period of time. It is that simple—and that difficult," writes Mr. Hayes.

Mr. Abernathy, whose particular specialty is the auto industry, notes that it isn't flashy fins, style, slick marketing or broad distribution networks—solutions that Detroit has often turned to—that have put Americans in Japanese cars.

Instead, he says, the Japanese have lowered production costs and improved quality by maintaining a superior manufacturing process that considers the production line as a competitive weapon. To compete, American manufacturers must move from an era in which there was little change in production systems to a time of great turbulence in equipment, employee skills and organization—elements that run counter to a belief in standardization.

It was Mr. Abernathy who developed the concept of the "productivity dilemma," which helps explain why Detroit has gone through such pain in adapting to new competition and a changed market. He finds its predicament rooted in enormous pressures for cost savings that constantly pushed for more efficient manufacturing. As manufacturing became more efficient, it also became more standardized, more rigid. The gains from economies of scale came at the expense of innovation and technological competitiveness.

These powerful thoughts started in an innocent enough setting—in the hiking paths in the Swiss Alps near Vevey, where Mr. Hayes was working as the faculty chairman for Harvard's International Senior Managers' Program and Mr. Abernathy was doing independent research. Though the two had been colleagues on the Harvard faculty in operations management, their interests had differed and their paths never crossed until that summer of 1979 in Switzerland.

"There were only two people interested in operations management in Vevey," recalled Mr. Hayes, in an interview in his spacious Harvard office. "Needless to say, we got very close."

"I didn't know Bob very well," Mr. Abernathy recalled recently, "but we'd end up talking on the bus to work every day. I was mad when I was in Switzerland. I had lived in Germany for four years at the heyday of American industrial supremacy, and now I felt poor in Switzerland. I felt angry that American industrial might had fallen to a point that an American citizen had to feel somewhat impoverished living in Switzerland. I started talking about it on the bus and on hikes we would take at lunch and we began to find that our ideas coincided—that American business had done this to us by making poor long-run strategic decisions, especially with productivity and technology."

As Mr. Abernathy brooded over all this, Mr. Hayes, who grew up in the middle of Kansas, was going through a turmoil intellectually. What he learned in searching for materials to teach his class, in talking with European businessmen and from his visits to European factories did not square with what he had previously believed about productivity.

"One time I was teaching a class to European businessmen, and I began to list all the standard reasons for the decline in American productivity—organized labor, government regulation, the baby boom—and they all looked at me with polite amusement. They said I was totally off the mark since all the same factors applied to Europe and more, and their productivity was increasing," recalled Mr. Hayes. "I walked out of that classroom, confused and shaken. I had felt comfortable in that I had known the reasons and now they were exploded."

Their discussions about the differences between American and European business led to the decision to write the article that became "Managing Our Way to Economic Decline." It was not in the Business Review's usual mold. More colloquial and anecdotal than academic, it indicted American business and implicitly indicted the business schools themselves—not least the Harvard Business School—for imbuing a generation of business leaders with the wrong ideas.

"We started working there, and then continued when we came back," Mr. Abernathy said. "It was the first emotional paper I've written. It was more an emotional statement and not supported in precise academic manner. It is a statement of frustration that we at the business school might have a problem."

As their thoughts took shape, the two professors were more than a little apprehensive. In the months that passed between the writing of the article and its publication, the two fretted about what their Harvard colleagues would say.

"We knew it would be a controversial article," Mr. Hayes said. "We thought it would get more criticism than applause from business, but what we really worried about was our colleagues. We thought there would be a lot of flak.

"But we were lucky. The first draft went in during September 1979, and before it was published we started seeing some of these ideas in other people's speeches. That started getting the audience up for us. When it came out, we weren't prepared for the response. The first week after it appeared, someone sent me a clipping about it in a Japanese newspaper. Our article came out in July and by September, our colleagues were back. By the time they came back, they saw what the reaction was. What we were unprepared for was the degree of agreement we got from them."

Even though the thoughts weren't entirely new—American business has long been criticized for its short-term orientation—their article had impact because it came at the right time, because of their academic credentials and because they expressed what others also felt.

"They really hit a nerve," said Professor Kim B. Clark, an assistant professor of business administration at Harvard who has worked with both men. "People had a vague uneasiness that things were not working right. They began to articulate ways to get out of the dilemma."

Mr. Abernathy and Mr. Hayes are part of a vocal group within the Harvard Business School faculty that has plowed new theoretical ground in production and operations management. At Harvard, as at many business schools, the finance and marketing departments are dominant, and Mr. Abernathy and Mr. Hayes, along with Prof. Wickham Skinner, who is the mentor to both, have had to elbow their way into the consciousness of students and administrators.

While friends and professional colleagues, the two men could not be more different in their personal style. "Bob is extraordinary in his ability to generalize," Mr. Skinner admired, "to look at a problem and see what it amounts to in a more conceptual way. Bill's great strength is as a researcher. He comes up with solid, specific data and then comes out with an idea. The three of us don't spend a lot of time together, but we are greatly influenced by each other. We were convinced that American industrial strength was going downhill. We begin to try to figure out what was going wrong."

Mr. Hayes, an energetic Middle Westerner who expresses himself in a simple and direct way, started in operations research and had worked for I.B.M. and McKinsey & Company in inventory control before coming to the Harvard faculty. He earned an M.S. degree and a Ph. D. from Stanford University. In shirtsleeves, Mr. Hayes outlines his thoughts as he talks, ticking off and numbering the points he makes. His office is orderly, students' bluebooks stacked neatly on his desk, family pictures by his desk.

By contrast, Mr. Abernathy, in a suit, talks while leaning back in an easy chair in his cluttered office, letting one thought flow in the next, forming a stream of related ideas. He had worked as a project engineer at Du Pont and a systems manager at General Dynamics. A biographical press release from Harvard states he came to the business school, where he earned an M.B.A. and D.B.A., after being "spurred by a growing awareness of what he felt was poor management of technology in the firms where he worked."

Stricken with cancer in 1979, Mr. Abernathy has maintained a busy schedule of seminars, teaching and writing despite bouts of surgery, chemotherapy and radiation therapy. A week or so ago, he was appointed the first William Barclay Harding Professor of Management and Technology at the business school.

Even though their thoughts have gained a wide following, Mr. Abernathy and Mr. Hayes remain somewhat discouraged about their impact.

"What I see is a lot of form—sending people to productivity centers and making statements in annual reports," Mr. Hayes said. "I don't see what's happening on the plant floor. My impression is that there is no sense of urgency in American companies, no sense that even when the economy gets better, we could get into trouble. They don't think this could happen to us." As Mr. Abernathy sees things, the challenge for him and Mr. Hayes is to "get to important firms and turn them around and use them as role models. You have to influence a small number and if they become successful they become a mode of communication. We're talking about a changing attitude. The question is how fast can you turn that around?"