Faulty Lessons From the Boardroom

The New York Times - November 29, 1992

By Mitchell Moss

THE DEMOCRATIC PARTY under Bill Clinton has assumed that with the right blend of public policies, American corporations are ready and willing to create jobs and sell new products and services. Nothing could be further from the truth.

The election of Mr. Clinton certainly reflects a strong public desire for Federal initiatives to stimulate the economy. Although both leading Presidential candidates put forth policies to foster growth, Mr. Clinton emphasized the need for substantial public investment in job training and infrastructure to create jobs, while President Bush argued for reducing the capital gains tax while maintaining low inflation.

But if the past year teaches us anything, it is that the traditional icons of corporate America - like I.B.M., General Motors, Macy's and Sears - have failed to adapt successfully to technological change and global competition. President-elect Clinton and the new Congress will soon discover that the problem with the economy lies not in Washington but in the boardrooms and executive suites of some of America's oldest businesses.

Public policies did not cause Sears, Roebuck to lose almost $1 billion in the past quarter. Nor is Congress responsible for I.B.M.'s 51 percent decline in third-quarter earnings. G.M. has "massive redundancies at every level of the company, and minimal accountability for profit, loss, quality," said Joseph S. Phillippi, automotive analyst at Shearson Lehman. Does anyone really believe it can be saved from its own self-destructive tendencies? And Macy's - in Chapter 11 since January - continues to report enormous operating losses: it will need more than a visit from Santa Claus to avoid the department-store graveyard.

The boom years of the 1980's created opportunities for companies to enter new markets, develop new products and reshape corporate structures. But some corporate giants - like I.B.M., General Motors. Sears and Macy's - failed to recognize that their centralized control and decision-making systems impeded rather than encouraged innovation and competition.

Fortunately, many companies took advantage of the 1980's to reshape their product lines, to reach out to global markets and to scale back their payrolls. In some cases, good things happened for the wrong reasons. The divestiture of the Bell System - brought on by a Justice Department lawsuit - forced A.T.& T. to learn how to operate in a competitive marketplace - and to sell its technological capability overseas.

SIMILARLY, the 1987 stock market crash provided the impetus for investment banks and securities firms to consolidate operations and recognize that markets go down as well as up. I.B.M., once the world's premier computer maker, still relies on slow-growing mainframes for more than 50 percent of its earnings, and it has only recently shifted its strategy from an empnasis on hardware to software and services, while also breaking itself up into autonomous business units.

The 1980's also gave rise to a new round of corporate innovation and leadership: at Apple Computer, Hewlett Packard, the Gap, L. L. Bean, Home Depot and even the once-ailing Chrysler. These companies develop new products with short lead times and use information technology aggressively to control costs and respond quickly to consumer preferences. By relying on management structures that encourage worker participation rather than mindless hierarchical bureaucracies, such companies stay in close touch with employees and customers alike. The rapid growth of the computer software and biotechnology industries demonstrates how innovation and creativity in a decentralized structure can provide the basis for economic growth and job creation.

Government as well as business can learn from the last decade's lessons. Centralized decision-making no longer works in the private sector, and we should not expect massive Federal agencies, many of which share the same outdated management structures and practices that have weakened private industry, to solve our nation's most pressing problems. Mr. Clinton and his advisers should recognize that policies designed in Washington and dictated by unresponsive bureaucrats will not be any more effective in the public sector than similar approaches were in business.