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Geared for happiness

Clare Crawford-Mason and Robert Mason

COMMENTARY:

A surprising and ultimately happy ending to the controversial auto industry bailout may be possible.

A positive outcome requires the proven management ideas of a former U.S. Census Bureau employee, W. Edwards Deming. The current discussion about bankruptcy reorganization, curbs on executive compensation and payment of dividends - even replacement of top management and director - won't save the carmakers or help America.

The Detroit Three will soon run through a cash infusion because they are not competitive in the longer run even if relieved of their pension liabilities and union contracts. American carmakers need help not only to build the right cars but also to build cars the right way.

Toyota and other Japanese export companies credit Dr. Deming with teaching them "to work smarter, not harder."

"Now more than ever, we need to remember Deming's teachings: simply put, quality first and follow through with the honest practice of developing quality products and quality people," is how Shoichiro Toyoda, chairman and former president of Toyota, explained it. Translated: make products of continually improving quality and everything else - increasing market share, cost reductions, and growing profits - will follow.

Ironically, Toyota's management philosophy has deep American roots. Dr. Deming, who died in 1993, lived quietly on Butterworth Street N.W. in Washington, D.C., for more than 50 years.

He began to develop his management ideas as a boy on the Wyoming frontier in the early 1900s as he observed the benefits of continual improvement of farming practices taught to his neighbors by the U.S. Department of Agriculture's extension service. This government-sponsored education in best farming practices allowed America to become the world's leading producer of food and fiber and was the basis of our successful economy. Deming would later speak of the cooperation among the townspeople at barn-raising and quilting bees rather than the Hollywood myth of loner cowboys shooting each other and Indians to settle the West.

Deming liked to tell how the Great Western Sugar Com. would take newspaper ads to advise the farmers when to plant, thin and harvest their sugar beets so they

would get the best crop. This led him to advise Toyota to work with their suppliers and customers rather than go for the lowest price or highest profit.

If GM, Ford and Chrysler were enabled to anticipate, design and produce continually improving cars that people want to buy - a basic tenet of Deming's ideas - the industry could not only become profitable but it could be a leader in helping more American businesses, schools, government agencies and hospitals to adopt this "working smarter" philosophy.

This could be similar to how the Department of Agricultural Extension Service helped the farmers. "Working smarter" requires understanding and managing organizations as complex social systems. Management's focus is the relationships among cooperating workers, managers and departments. As Dr. Deming was fond of saying: "Then the design department won't design a car that production can't make and the marketing department can't sell."

Continual improvement of how the work is done yields more effective, efficient and profitable results in a rapidly changing, competitive market. Toyota is said to receive more than 1 million suggestions each year from its workers and acts on more than 90 percent of them.

Using Deming-Toyota methods numerous American hospitals, schools, and companies from Harley-Davidson and Hillerich & Bradsby's Louisville Slugger baseball bat factory to 20 SSM Hospitals in the Midwest and 40 southwestern Pennsylvania hospitals have dramatically reduced costs and improved products and services over the last 25 years.

Although divisions of each of the American auto companies have implemented many of these ideas, but managements interested in short-term profits never followed through. Instead, they lobbied Congress for relaxed fuel efficiency standards. Deming's philosophy of continual improvement seems almost unpatriotic in the land of "If it ain't broke, don't fix it."

The near-term challenge is twofold: Build fuel-efficient, hybrid-electric cars while continually improving the way they are built. There is no other way to survive in the global market.

In 1945, Japanese industry leaders looked out on a landscape of total industrial destruction and knew they had to change the way they did business. They had to overcome a reputation for exporting shoddy products.

Now it is our turn to look out the window and see that we have to change what we make and how we make it.

Treasury Secretary Henry M. Paulson has said, "A healthy automobile manufacturing sector is essential to the restoration of financial market security." We agree that car-making in the United States is an essential part of our shrunken manufacturing sector. But American car companies are not healthy.

They have given up market share to Toyota, Honda and other transplant manufacturers for decades.

Loans for retooling are a foolish waste of resources. The problem is not pension liabilities or costly union contracts. The essential problem is management thinking. Competitors have continually improved their ability to design, build and bring to market more rapidly better-quality, better-selling vehicles. Most telling, Toyota and Honda already have a seven-year lead in development of hybrid vehicles and may be expected to maintain their technological edge.

The way through this crisis will not be quick and it won't be easy. We believe Congress and the new administration must bring the car companies into alignment with national priorities by reforming their management even as one or more of them is restructured through Chapter 11 bankruptcy.

We suggest two alternatives: First, if there is to be a financial rescue, the federal government must take its seat on the boards of these companies. It should mandate a transformation of management practices to principles of continual improvement - long demonstrated by more successful competitors. The companies must adopt a strategy of designing and building vehicles that will lead to elimination of petroleum-based transportation. We leave it to others to determine if the current managements and directors will be replaced.

Alternatively, the federal government should invite Toyota and Honda for discussion of possible mergers that would strengthen auto manufacturing in the United States. The nation's aim after all should be to move determinedly and swiftly toward reduced consumption of foreign oil and ultimately elimination of fossil fuels for transportation. Proud insistence that the nation needs the brands "General Motors," "Ford," or "Chrysler" will gain nothing. The nation needs to work smarter.

This possibility of a transformation of management and manufacturing offers a benefit of incalculable value. It is an investment the costs of which will surely be recouped many times over, and the long-term happy ending will be that other sectors of our economy will learn from this powerful lesson.

Clare Crawford-Mason is co-author of "Thinking About Quality: Progress, Wisdom and the Deming Philosophy." She and Robert W. Mason are producers of the Deming Library.

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