MANAGING BY THE NUMBERS

Absentee Owners and the Decline of American Industry

CHRISTOPHER MEEK
WARNER WOODWORTH
W. GIBB DYER, JR.

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The past few decades have seen a dramatic change in the character of American business. Family-owned, entrepreneurial companies, rooted in a particular community and focused on a particular product, have become multidivisional, publicly owned conglomerates. These enormous systems are now controlled by generic managers, educated in the nation's business schools but without roots or expertise in any specific business. This historical shift toward an absentee ownership structure and a highly trained, professional management is usually hailed as progress. In fact, as Meek, Woodworth, and Dyer argue in this important and controversial book, these developments are the real culprit behind the appalling decline in America's competitive position.

Today's executive is more of a money manager than a leader of people; today's companies are more concerned with manipulating assets and climbing the corporate ladder than with making quality products and creating new American jobs. The authors document and analyze the full dynamics of the trend toward absentee ownership and professional management using three detailed case studies, including an extensive analysis of the USX Company and the American steel industry as a whole. The reader will discover how managing "by the numbers" has led to business failure in individual companies and to economic disaster in many communities.

The authors also consider a wide variety of alternative forms of business structure, calling for new forms of labor-management cooperation, a transition to employee ownership in many industries, and new specific measures by state

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Preface

In many ways, this book is the product of a fortuitous intersection of two different approaches to contemporary American business. Since the mid-1970s, two members of our group, Christopher Meek and Warner Woodworth, have been studying troubled industries and helping managers, workers, and local government officials in their efforts to prevent plant closures and reverse the effects of industrial decline. As interventionists, we were not always successful. But we invariably found, at the heart of the problems we studied and tried to solve, the same two interrelated developments, both having to do with corporate ownership and control.

Throughout this book we refer to these developments as *absentee ownership* and *professional management.* By the first term we mean the ownership of companies by shareholders scattered around the nation and the world, or the ownership of individual plants and businesses by other, larger companies themselves owned by such shareholders. The second term refers to the kind of generic manager whose roots are in an MBA program instead of in the factory or on the shop floor of a specific business; the kind of manager who goes "by the numbers," treating workers and businesses alike as little more than financial assets.

Our third coauthor, Gibb Dyer, arrived, although from a different vantage point, at similar conclusions about the impact of absentee ownership and professional management on American industry. Where Meek and Woodworth came at the problem from the back end—that is, from the point of crisis and deterioration—Dyer started at the front end, by tracking successful family-owned companies from their genesis onward. In these historical studies, Dyer repeatedly found that once successful family-owned businesses faltered, losing the loyalty of employees as well as their technological and marketing competitiveness when they began to be influenced by absentee interests and the values and financial techniques of professional managers. In his consulting work with troubled family companies, Dyer, like Meek and Woodworth, found himself advising management to revive the traditions of family ownership, as well as cautioning founders anticipating retirement to consider alternatives to going public.

Our own critique of professional managers and their training stems in large part from our experience as consultants to executives in businesses ranging from small, family owned enterprises to Fortune 500 corporations. We also have taken as well as taught many MBA courses ourselves in programs at the University of Michigan, MIT, Boston College, the University of New Hampshire, and today at Brigham Young University. Thus, the observations we make and the criticisms we express are not merely reckless "shots made from the hip." They have been derived and developed from our several collective years of experience with business students in the classroom, and with professional managers in the "real" business world.

In our work in America's companies and industrial communities, we were amazed at how frequently we heard the same story—the story of a company, once vital and innovative, that lost its competitive edge after the withdrawal of the founding entrepreneurs and the shift to absentee ownership. Middle managers and workers across the country sadly—and sometimes bitterly—told us a similar tale of how professional managers had drained the profits from their companies, once the economic backbone of their communities. More often than not we found that the answer to our efforts to revive troubled companies was not a program of innovation and change but instead a return to the company's historical and cultural roots.

It was not until late 1984 and early 1985 that we realized that our seemingly different and independent work was coming to the same focal point. As we shared our research findings and consulting experiences at departmental meetings, it became clear that the three of us were essentially looking at the same issues from different angles and coming up with similar conclusions. A panel presentation at the 1985 Academy of Management meetings in San Diego further clarified the overlaps of our research when panel commentator Davis Dyer, then of the *Harvard Business Review,* suggested that we expand on our ideas into a book.

It has been fun writing this book, because we realized from the start that it would be controversial and that reactions to it would probably be mixed and emotional. Some readers, perhaps, will be angry with everything we say—and we look forward to their comments and criticism. Other readers will find themselves cheering our analysis of the problem, but they will not agree with our recommended solutions. And at least some readers, we hope, will give serious thought to our analysis of the impact of absentee ownership and professional management on American business, and will consider how our recommendations may be used in their situations. In any case, we look forward to the debate this book may generate.

and federal governments to protect jobs and combat industrial decline. The current crisis, in other words, is too serious to be left to executives—whose cold financial calculations and strategic plans have too often obliterated generations of corporate loyalty and sent thriving industrial communities into economic decline. Working together, all the parties of the economic enterprise—workers, consumers, unions, and government—can still create a powerful new corporate culture and save American industry before it is too late.

ABOUT THE AUTHORS

All three authors are on the faculty of the Department of Organizational Behavior at Brigham Young University in Provo, Utah.

Christopher Meek received his Ph.D. from Cornell in 1983 and is a specialist in industrial and economic democracy, quality of work life, union-management cooperation, and intervention theory. He has consulted on several unusual recent projects, including the Massachusetts AFL-CIO Worker Education Project and the Social and Economic Development Strategies Project organized by the Southern Ute Indian Tribe, in Ignacio, Colorado.

Warner Woodworth received his Ph.D. from the University of Michigan in 1974. He has taught at Wayne State University and, as a visiting professor, at the Pontificia Universidade of Rio de Janeiro. The author of numerous articles on economic democracy, employee ownership, and organization development, Woodworth has also consulted to a number of Fortune 500 companies.

W. Gibb Dyer, Jr., received his Ph.D. from the Sloan School in 1984, where he specialized in organizational behavior, culture, and change. His research into the evolution of family-owned companies resulted in the recent award-winning book *Cultural Change in Family Firms.*

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Advance praise for

MANAGING BY THE NUMBERS

"Among all the books recently criticizing American business, none hits the nerve like *Managing by the Numbers* . . .

Authors Meek, Woodworth and Dyer have a large menu of practical remedies for management by distance and ownership by absenteeism . . . A searing, empirical book that exposes the perches of corporate power for all Americans to see."

—Ralph Nader, consumer advocate and co-author of *The Big Boys: Power and Position in American Business*

"By emphasizing organizational structure and the distribution of power in our corporations, this book provides an important antidote to the "feel-good" school of management. I commend it to anyone concerned about the future of American business."

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