VIEW OF THE 1980'S BY AN EDUCATOR

by

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There appears to be general agreement that the 1980's are different from the 1960's and '70's. Productivity and economic growth began to falter in the 1970's, but rising inflation hid this for a while as companies found it easy to pay big wage increases, lift prices and show rising profit. The 1980's have revealed that productivity and economic growth are faltering significantly while progress in made in bringing inflation under control.

The major way in which inflation has been dealt with so far is monetary policy. This leads to very high real interest rates. The slow growth in demand, high real interest rates and volatility in the social, economic and political environment will not reward "business as usual" in the 1980's. The large run up in energy prices, use of monetary policy to control inflation and lower productivity all combined to lead to small growth in demand. High real interest rates provide an unforgiving environment for business decisions. The social, economic and political volatility lead to unplanned and unanticipated events dominating our lives and livelihood.

Tom Zaucha told us the major problem of the 1980's is managing change. The Wall Street Journal of September 20 cited a number of individuals' views of the implications of the changing environment. I present a sample of views from these individuals. John Welsh, Chairman of General Electric Company, said, "We need managers to control growth, to direct it." He said successful firms will have to "make growth happen - that's the only way out of a slow-growth environment." Reginald Jones, former Chairman of General Electric, said, "If companies are to succeed in an era of slower growth, they have got to have people who are interested in something more than quarterly financial reports." Jerry Jasinowski, Chief Economist for the National Association of Manufacturers, said, "We are entering a period of shorter business cycles and lower long-term growth rates. Companies are going to have to think harder about how to beat the system. We are in a period of survival, requiring consolidation, cost reduction and contained efforts to expand markets." Mr. Lewis of Strategic Planning Associates says, "Companies must be aware of what they can do to satisfy their customers. This will require an understanding of the marketplace of a company's special capabilities to make and exploit opportunities."

Just as the food distribution industry faces grave uncertainties in the 1980's, so do the producers of agricultural products, suppliers of your raw materials, and consumers, the buyers of your products and services. Income to farm families from farming has been decreasing so far in the 1980's and cash flow problems are increasing. Disinflation has occured in land prices--20% in the corn belt. For most of the 1980's, real income of consumers has fallen and measured unemployment rates have increased. This is leading to changes in buying patterns and shopping behavior. Successful action by the food distribution industry to deal with its opportunities and problems for the 1980's cannot ignore the well being of these two groups.

Not all is doom and gloom. I wish to report some ideas presented by Joseph P. Sullivan, President of Swift and Company to the annual meeting of the Farm Foundation Board of Trustees in

June of 1982. Evidence that his ideas are worth listening to are contained in the fact that Swift moved from a ten million dollar loss in 1980 to a 38 million dollar profit in 1981. In 1982, despite the recession, earnings are expected to be up over 25% to approximately 48 million dollars. The fact that Joe Sullivan in Chairman of the Board of the Farm Foundation has little bearing on my regard for his ideas.

Joe said that as they attacked the task of turning around Swift in the '80's the management team concluded that the following steps had to be taken:

1. They had to look realistically at their environment.

2. They had to establish a pace of action that was appropriate.

3. They had to improve efficiency -- both administration and production.

4. They had to recognize that they had to grow and were not going to milk the business.

5. They had to go back to the basics at Swift and Company and concentrate on those priority activities that meant the most in terms of the bottom line.

6. Given the complexity of their business today, on the one hand and on the other hand, the tremendously increased capacity of people caused by their better training and management tools available to them, it made sense to operate on a team basis and in a decentralized mode.

Swift and Company early recognized the change in environment of the 1980's from the '60's and '70's. They responded by looking at the key factors of improving overall efficiency. They decided that they had too many good people not fully engaged in activities that would produce an improved return on investment. They had to organize and prioritize the activities of all people in the organization, including middle management. Each person had to look how they ordered their day and establish priorities in order to improve efficiency. Management decided Swift had to grow in order to retain outstanding people.

However, Joe suggests that in the pursuit of growth it is also necessary to "avoid ego trips." He points out, "All too often, we become obsessed with the hunt...We think if we lose out on a deal that we somehow are not a good businessman or a good farmer. These ego trips have been the principal reason for the downfall of many otherwise good farming operations, institutions and companies."

Getting back to the basics, they had to spend time understanding the guts of their operations and not be too superficial at a time when detailed knowledge of what makes a business work was essential for survival, much less success. They focused on; 1) more effective interaction of the sales person with the buyer, 2) highly efficient production operations emphasizing the key role of the first line supervisor with his people, 3) aggressive buying of raw materials and services, 4) rational and consistent growth through unit volume increases on existing high-margin products, product line extension and acquisition of sound companies operating within the Swift and Company charter, and 5) optimum management of assets achieved through continued good execution of present strategies.

Finally, they learned that a team approach to management and decentralized operating environment really works. A decentralized team approach combines the advantage of utilizing bright young people in a focused effort at a time when flexibility is the key to successful operations.

What does education have to do with all this? Professor Theodore Schultz of the University of Chicago has brought to the attention of economists and policymakers the importance of human capital development. At a November 1981 conference in Mexico he talked about the relative role of physical and human capital investment in getting agriculture moving in low income countries. What he had to say I think applies just as well to the firms and organizations represented in this audience.

Schultz pointed out that serious investment mistakes are made because of the monolithic concern about material things. He states: "The formation of capital and material things is only a part of the investment story. An important part consists of human capital which is neglected. Addition to the stocks of human capital that improve the quality of the population - improvements in health, more and better schooling, the acquisition of skills, and training at work, and not least, advances in knowledge by means of research - are usually high yielding investments over the long term in their contribution to the economic growth and welfare including that of agriculture and farm people."

Education can be viewed from many perspectives, transmission of the culture, a place to park young people in time and space until society is ready to use them and they are ready to be used by society, or an excuse for an organization (University) which provides a football team. I think it most important to view education as investment in human capital. What kind of new management employee should your firm or organization hire? What are the implications for programs of training at all levels within the firm or organization? The educational organizations that produce human capital could also listen, for as Tom Zaucha point out, Universities face shrinking budgets.

There are many reasons why success in the 1980's will demand a tough analytical discipline of managers. There must be increased attention to a numbers-minded operational efficiency. Bold marketing visions are going to be required. Profitable sales will need to be expanded over time by meeting the needs of customers. Sales managers will have to look beyond quarterly sales reports. A continuation of the way things were done in the '60's and '70's will not be sufficient. Productivity is a major problem, real interest rates remain high and the environment of the 1980's will leave little room for error.

However, obtaining new managers with these skills or developing these skills through in-service training will not be sufficient. Old management virtues are still important. Self discipline, leadership, the ability to instill employee loyalty and shared goals, and the ability to be a team worker are needed. The best tough minded analytical computer assisted analysis means nothing unless it is put into place in a disciplined program that is accepted by the employee on the line, in the sales force, and in the corporate headquarters. The new without the perspective and the skill of the old will not be productive.

I should like to close with one bit of philosophy. The reason that society allows your and my firm or organization to exist is because it serves society. If it does not serve society, either market, social or political forces will lead to its demise. As Joe Sullivan said, the excitement of the hunt can be our own worst enemy. Overcoming the competition and gaining recognition for ourselves or our firm and organization is very heady activity. However, in the long run, unless we serve society well, we will not continue to exist.