

We must be careful not to fall into the Studebaker trap

By COLIN READ, *Everybody's Business*

July 12, 2009 03:24 am

— What is South Bend, Indiana, known for besides the home of the University of Notre Dame?

If you are at a loss, that is precisely South Bend's problem.

In 1868, the same year Moss K. Platt's railroad from Plattsburgh to the Canadian border became the Montreal & Plattsburgh Railroad, the Studebaker Manufacturing Co. began manufacturing horse-drawn buggies in South Bend. This family affair would soon become the world's largest wagon manufacturer.

When technology changed, Studebaker evolved just as swiftly. It became the first former wagon manufacturer to build electric and gasoline powered vehicles, and sold its second motorized vehicle to Thomas Edison, that other innovator of epic proportions.

Their monoblock engine casting system hailed in an era of low-cost and efficient vehicle production. Affordable vehicles changed this country, and helped place the United States at the apex of global economic leadership.

The Studebaker Manufacturing Co. understood their global market. They produced mid-priced vehicles for both domestic use and export. Their diversified market allowed them to evolve and survive the Great Depression. In 1939, they added a line of affordable vehicles while still maintaining their reputation for quality.

They were also quick to recognize the needs of the U.S. military as it geared up for war in Europe. They began building tracked amphibious vehicles, a six-wheeled transport and the B-17 Flying Fortress. When the country needed innovation and reliable production, South Bend came to the rescue.

And when the war ended, Studebaker quickly shifted gears, producing the stylish and sporty vehicles demanded by a country that seemingly knew no limitations to its abilities and energies. Studebaker was emblematic of that post-WWII Greatest Generation — hard working, confident and innovative, with a great sense of what was possible.

Studebaker continued to innovate, but the town of South Bend was content to rest on its laurels. Labor and management conflicts ensued through the 1950s. Studebaker went through a series of leaders who were unable to generate the sense of shared destiny necessary to maintain a shared vision.

Business as usual was not working. With a secret plan to dismantle the company, the Studebaker board of directors hired a visionary named Sherwood Harry Egbert. Unfortunately, nobody told Mr. Egbert that his job was to disassemble the company. Instead, he set about to restore the company to its former greatness.

While Egbert was not an automobile executive, the former U.S.M.C. officer did understand a little about

human nature and a lot about innovation and leadership. His six-foot-four-inch frame commanded attention. His experience as a production executive at Boeing gave him an understanding of supply chains and the production line.

He also had the wisdom to know what he did not know. He hired brilliant designers and engineers, and set about creating cars that others insisted could not be created.

He insisted that the factory be spruced up and painted, and he expected his employees to be Studebaker men and women, with the same sort of pride in themselves and their environment as they wanted owners to have in Studebaker cars. He asked them to share in his vision of excellence, and asked too for concessions to make a competitive car. He knew that these concessions would be difficult, as is anything worthwhile. But the changes would sow the seeds of productivity and prosperity for generations to come.

And he was willing to make other changes necessary to create this vision. If a dealer did not show the necessary enthusiasm for Studebaker, proportional to the engineering talent invested in these new cars, they would be replaced. Egbert very much believed the esteem of his employees ought to be derived from the quality of their product. After all, the market responded to only one thing — Studebaker innovation. If they could produce a great car, the company would survive and the employees would be rewarded with secure jobs.

Undaunted by the naysayers and status quo ante preservers, Egbert's team produced the Avanti, a sports car that competed with the Corvettes and Thunderbirds of the day. This highly innovative automobile secured the record of the world's fastest production car, and set stock car records.

Egbert's innovations and changes did manage to increase sales. But, turning the company around was a double-edged sword. It could be viewed as the first step toward a prosperous future. Or it could be viewed as an opportunity for complacency and some hard bargaining over bigger pieces of the pie.

Unfortunately, he was not able to secure the change necessary. The company experienced only the third labor walkout in its history, partly over Egbert's desire to save millions by reducing the 38 minutes of daily hand washing time employees had negotiated to the industry standard 24 minutes.

The walkout was prolonged, lasting 38 critical days, just as Egbert was trying to drag Studebaker into profitability. Ultimately, Egbert failed to receive concessions at the bargaining table, with hand washing time reduced by just four minutes. This failure to increase competitiveness induced the Studebaker board of directors' resolve to close down the illustrious century-old South Bend company.

Perhaps nobody wanted to accommodate the organizational change that was necessary, despite an innovative product and an equally innovative leader. Perhaps too they mistrusted a leader who was not a "car guy," and failed to recognize "car guys" had stagnated the company by looking backward, not forward. Ultimately, Egbert could not overcome the fear of change of his stakeholders. Each had an interest to protect, and they would protect those interests to the point that the enterprise was driven into the ground.

Within a year, Studebaker was finished in South Bend. Perhaps people continued to fight over pieces to the pie for a while — but the pie was all gone. And South Bend has struggled ever since.

It is ironic that history repeats itself as General Motors and Chrysler seem destined to suffer the same fate. Is there something about fear of organizational change that causes us to balk when it asks something of each of us? I can't help but think each time I wash my hands that Studebaker was scuttled over four minutes of hand washing time.

Colin Read runs Economic Insights, a local economics consulting firm, and teaches economics and finance at SUNY Plattsburgh. His fourth book, "The Fear Factor," will be published in the U.S. this October. He can be reached at economicinsights@gmail.com.

Copyright © 1999-2008 cnhi, inc.