Winthrop Perspectives

Leading in Uncertainty: Four Proven Principles from History—Part II

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In a recent white paper, "Leading in Uncertainty: Four Proven Principles from History," we drew on the experience of several Depression-era firms to suggest four principles by which today's firms can re-assert control in the midst of economic crisis and lay the foundation for long-term growth.

1. Take the long view.
2. Take advantage of down markets.
3. Invest for the future.
4. Build loyalty through purpose and appreciation.

Here we highlight firms that have applied these principles in more recent downturns, most notably the 1970s.

1. Take the long view.

Daimler-Benz

Armed with a long-term perspective, Daimler-Benz, the German luxury car maker, was able to chart a safe course through the 1973 oil crisis and the worldwide recession that followed. Throughout the 1960s, the firm's three main shareholders, Deutsche Bank, the Flick family, and the Quant family, had argued noisily in favor of diversifying into a range of mass market brands, as General Motors had successfully done. But in 1965, the firm's CEO, Dr. Joachim Zahn, recognizing the enormous start-up costs needed to compete in a mass market, decided instead to beef up the international market for Daimler's existing high-end product line. He convinced the shareholders to sell off Daimler's majority stake in Auto Union GmbH and use the proceeds to finance the international expansion. This niche strategy served to insulate the company in the wake of the 1973 oil crisis, when demand for mass market cars collapsed but luxury brands remained strong. For the rest of the decade, Daimler saw scarcely a dent in its financials, and by the early 1980s, it had become Germany's largest automaker by sales value.

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2. Take advantage of down markets.

Trinity Steel (now Trinity Industries)

Beginning in the late 1950s, Trinity Steel (now Trinity Industries), a Dallas-based manufacturer of LPG tanks, began to buy up troubled or closed plants at rock bottom prices. After negotiating new licenses with local authorities, it recycled both the production facilities and the equipment to serve its existing product lines. In recessions, the company used this same approach to acquire competitors or other companies with weak financials or less stomach for a prolonged downturn. This strategy, executed consistently ever since, helped Trinity grow to become a Fortune 1000 multi-industry company.

3. Invest for the future.

Corning Incorporated

The 1970s proved to be a very difficult time for Corning, by then the world's largest specialty glassmaker. Deprived of its most profitable product, television tube glass, when its main customer, RCA, entered the market several years earlier, the company now had to cope with lower margins and smaller volumes for the superior product engineering and design it offered. (TV glass was by far its largest market.) Windshield safety glass, 10 years and millions of dollars in the making, had proved to be a complete flop. And in 1972, its headquarters only just survived a devastating flood in the wake of Hurricane Agnes.

Faced with a disastrous drop in demand during the Great Depression, Corning had stuck doggedly to its own path, rejecting layoffs and rigid cost-controls in favor of more creative responses designed to generate growth in the long run. But the 1970s was different. After two decades of postwar prosperity, Corning was a much larger enterprise ($1 billion in revenue by 1973) with a generation of professional managers and world-class researchers that had never experienced a significant downturn. Moreover, it was now a public company with shareholders to please. Corning executives had to make some painful changes. Reluctantly, they cut costs and wrung savings out of manufacturing and operations through improvements in productivity and process. Using the "growth-share" matrix then in vogue, they also abandoned many long-term investments in basic research—especially smaller, loss-leading projects that helped develop a critical storehouse of knowledge and experience for use later on—in favor of targeted, short-term projects with a guaranteed payoff. What hadn't changed, though, was the deeply ingrained spirit of prudent risk-taking and creative autonomy which encouraged Corning's scientists to pursue promising new ideas as time permitted. This approach proved crucial to the development of optical fiber.

Corning's optical fiber project began in 1967 with an inquiry from the British Post Office (now British Telecom). For both technical and commercial reasons, the market for optical fiber was widely thought to be 20 years off, so this project struggled to attract support from an executive corps focused squarely on profitability. Then in 1970, Corning researchers, drawing on proprietary techniques developed earlier, managed to breach a critical light-attenuation barrier, rendering long-distance communication via optical fiber feasible in the near term.

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To develop this technology for a commercial market completely new to Corning would require high levels of investment with no immediate return. In the current economic climate, there was little appetite for that kind or risk. So the project personnel had to be creative. Building on a long-standing Corning tradition of leveraging proprietary knowledge through collaborative relationships with outside organizations, they negotiated a cross-licensing relationship with AT&T to gain access to Bell Labs and its laser work, and then established alliances with five major cable manufacturers to fund additional development. This was enough to sustain the project (and their jobs) through the mid-1970s, by which time they had been issued twelve critical process patents. Still, the project carried enormous personal risk for those involved—including Amo Houghton, Corning's CEO and a member of the family still with a significant stake in the company. Houghton, who signed the requisition for plant investment in optical fiber in 1975 with the papers for the company's first major layoff sitting on his desk, insisted he would have been fired were it not for his family ties.

Corning's break came in 1982, when AT&T was broken up by court order and MCI emerged as a competitor. Fifteen years after the start of the fiber research project, MCI placed the first large order for optical fiber. By 1984, Corning was not only the largest supplier of optical fiber in the world, and through an alliance with Siemens, for optical cable as well. It had also helped to transform the market for telecommunications.

4. Build loyalty through purpose and appreciation.

Hewlett-Packard

After the Second World War, as the United States shifted to a peacetime economy and government contracts dried up, most high-tech firms laid off engineers en masse. Hewlett-Packard, founded just a few years earlier, did not. Rather, it saw this as a unique opportunity to recruit talent, even if it didn't have much work for them to do. When the economy rebounded, their competitors struggled to fill positions, but HP was able to rely on a loyal workforce who knew the company would stand by them in difficult times.

About the Authors

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