Litton Management Assailed in 1971

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Congressional investigators, in a little-noticed report in 1971, charged that Litton Industries created "an image of technological and organizational supriority" by developing "flamboyant sham into an art."

The company, headed by Roy L. Ash until President Nixon tapped him six weeks ago to head the Office of Management and Budget, has made "overstatement . . . a way of life," the House Anti-trust Subcommittee said in a report after a lengthy investigation of conglomerate corporation.

"In the process of developing its image, Litton has utilized all of the sophisticated accounting techniques and statistical gimmicks available," the report continued. "It is adept at concealment, misdirection and incomplete statement."

Subcommittee Chairman Emanuel Celler (D-N.Y.) released the report over the Labor Day weekend—"almost surreptitiously," economist Walter Adams, former president of Michigan State University, complained afterward.

A few days earlier, also with little fanfare, the staff of the Bureau of Competition of the Federal Trade Commission urged the FTC to force Litton to divest Triumph-Adler, a German typewriter manufacturer, on the ground that the acquisition may tend to lesson competition substantially in a "highly concentrated" industry.

The plea is in a 359-page document that criticized the candor of Litton management with its stockholders as well as the competence shown in the Triumph-Adler matter by top Litton executives, including board chairman Charles B. (Tex.) Thoraton and president Ash.

Later, FTC hearing examiner Walter R. Johnson approved the merger. He agreed with Litton that as the owner of Triumph-Adler it would be better positioned to compete with International Business Machines in the sub-market for "full-featured" office electric typewriters. The FTC staff appealed. The case has been pending for several months before the commission.

The congressional and commission staff reports have been followed by sharp criticism of Litton's performance as a defense contractor, intensifying controversy about the choice of Ash to be the government's top management and budgetary executive.

Reports

See LITTON, A18, Col. 1

LITTON, From A1

Ash's competence as an industrial manager has been seriously questioned," Sen. William Proxmire (D-Wis.) said in closing a four-day hearing last month on waste in defense procurement.

Management Deficiencies

The Antitrust Subcommittee cited Litton as "one of the foremost example" of the multi-industry international corporations it was investigating, including International Telephone & Telegraph, Gulf & Western and National General Corp.

Formed in 1953, Litton acquired more than 100 companies and, by 1970, ranked 39th in sales among the nation's industrial corporations. And, said the staff report, it had "generated a legend of invincibility."

Litton reported increases in earnings for 57 consecutive quarters. But on Jan. 22, 1968, management advised stockholders of a substantial decline that, it acknowledged, "is, to a great extent, the result of certain deficiencies in management personnel." Litton stock fell 18 points in one week.

"Management has not detected in advance the seriousness of problems in several divisions," according to a Fortune magazine article quoted in the House staff report. The staff itself said, "Litton's management in some areas could not run a business."

Yet, said the staff, Litton's foundation is "solid" because—contrary to the image painted for investors—it is "a collection of profitable pedestrian businesses with a momentum from inertia that produces volume and profits not withstanding headquarters aloofness from operations and in disregard to the enthusiasms of its management's pronouncements."

The subcommittee tried to get key documents from Litton but was told they "did not exist," the report said. At hearings, Glen McDaniel, chairman of the firm's executive committee, acclaimed this as the result of "deliberate policy."

Documents Found

Litton executives from the start were told to spend their time "on activities which produce results . . . to keep down the sea of paperwork in which modern man seems to be drowning," McDaniel told the subcommittee. "The man who spends his time writing 'justification papers' in Litton is not likely to be with us very long."

The subcommittee staff, however, insisted that Litton had to have extensive records and demanded them in correspondence that occupies 34 pages of the printed hearings, in meetings, and in top-level interviews at Litton headquarters in Beverly Hills, Calif. Finally, the staff said, "the subcommittee convinced Litton that the documents could be found, and they were delivered."

The FTC complaint was rooted in Litton's acquisition in 1965 of Royal McBee Corp., which claimed to be "the world's largest manufacturer of typewriters." In 1966, Litton bought a major United Kingdom supplier, Imperial, and in the same year, to obtain the prototype of an electric portable, Germany's Willy Feiler.

Finally, in January, 1969, Litton bought Triumph-Adler, a large, growing German company that was competing head-on with Royal in all five typewriter sub-markets in the United States. IBM, in contrast, was competing only in the heavy-duty office electric sub-market.

In asserting that the acquisition established a deterrent to IBM's "monopoly power," the FTC staff said, Litton was stating an "emotional view" for which "the evidence is to the contrary."

In hearings on the staff complaint, Litton executives, including Roy Ash, tried to establish that the firm needed Triumph-Adler to overcome its weakness in the electric portable typewriter market.

Litton Blamed

In trying to demonstrate that weakness, Litton relied heavily on its experience with the Willy Feiler prototype. Both the company and the FTC staff agreed that the experience was a costly "debacle." The dispute was over whose fault it had been.

Litton, in statements to stockholders in 1968, blamed "unexpected delays in completing the final engineering work" on the Feiler machine. Ash, in testimony, blamed "the engineering personnel" and "the plant manager" at a plant in Hull, England.

But Ash's testimony was "inconsistent" with that of other Litton executives; and it is "difficult to determine which (Litton) witness to believe," the FTC staff said.

Actually, the staff said, the record "compels the conclusion" that the Feiler disaster was "the result of mis-appraisal, mis-timing, or mis-allocation of technological and administrative resources by Litton managers.

"Litton bears the responsibility," the staff said. "The Feiler prototype was not ready for production when it was bought; it was put into production prematurely; it was apparently sent to the wrong plant (in Leiden, Holland) for production; it was hastily transferred to Hull, where it was produced by untrained people on the basis of poor design, or bad planning or inappropriate production control methods, or some combination of the three."

The staff brief drew on the testimony of Litton officials, some of them interviewed abroad, to show:

- That tooling—"last phase of development"—had been arranged before hand-made models of the electric portable had been tested.
- That tooling was for 100,000 units—too few to permit recovery of costs, and too few for mass production.
- That 2,000 units "More or less assembled" in Leiden, at a cost of $438,838, could neither pass inspection nor be sold and were billed to the Hull plant, on orders of Litton's "top management," for $40,000; later, they were destroyed.

10,000 Destroyed

- That the Hull plant, which had never made an electric machine, went through a conversion process over four of five months in 1966 to produce the Feiler electric, and that the plant encountered severe difficulties because of dozens of design faults that Royal engineers repeatedly sent from Hartford, Conn., tried to correct.
- That the Hull plant produced 10,000 machines that were sent to the United States for re-sale to the Singer Co., but which failed to meet specifications and were destroyed in 1969.
- That the problems the Hull plant experienced didn't come to the attention of high Litton executives for well over a year, although Litton's claims of successful management were based on purported swift inter-communication.
- That the result of the Hull experience "was an accumulated loss of $4.3 million as of December, 1969, excluding salaries and expenses" of the Hartford research and development personnel who had tried to remedy the design faults.

Last week, Vice Adm. Hyman G. Rickover, called the "father" of the nuclear submarine, was disclosed to have rejected an attempt by Litton to blame the Navy for a huge cost over-run in the construction of three nuclear submarines. Litton's "grossly inflated" claim for $37 million "indicates misrepresentation, if not fraud," Rickover said last July in a memo to Adm. Isaac C. Kidd Jr., chief of the Navy Material Command.

Litton has denied Rickover's charge. The claim is pending before an appeals board.

In another development last week, Ash was reported to have played a key role in the submission of false affidavits to the Air Force, resulting in over-charges of an estimated $43 million. At the time, he was at Hughes Aircraft reporting to Tex Thornton, according to court papers.

Financial disputes between the Navy and Litton total about a half-billion dollars. Ash has said he intends to participate in budget matters affecting the Navy.

Gordon W. Rule, a top Navy civilian procurement official, was demoted by Adm. Kidd two days after telling Proxmire that the auditors' report was "the worst indictment" of a shipyard he had ever seen, and after criticizing the Ash appointment.

In a television interview yesterday, presidental domestic adviser John D. Ehrlichman was asked how, in light of Mr. Nixon's support years ago of legislation protecting civil servants from reprisals from their superiors, the administration justified the treatment of Rule.

Ehrlichman replied that "we support" the right of Congress to inquire, but that must be "balanced" by the consideration that "when you are running an executive branch or . . . a department . . . you have got to have confidence in your key people."