GM Must Change to Survive[88]

BusinessWeek But GM, of course, is no ordinary company. With sales of \$193 billion, it stands as an icon of fading American industrial might. Size and symbolism dictate that its fate has sweeping implications. After all, GM's payroll pumps \$8.7 billion a year into its assembly workers pockets. Directly or indirectly, it supports nearly 900,000 jobs—everyone from auto-parts workers to advertising writers, car salespeople, and office-supply vendors. When GM shut down for 54 days during a 1998 labor action, it knocked a full percentage point off the US economic growth rate that quarter. So what's bad for General Motors is still, undeniably, bad for America.

And make no mistake, GM is in a horrible bind. That \$1.1 billion loss in the first quarter doesn't begin to tell the whole story. The carmaker is saddled with a \$1,600-per-vehicle handicap in so-called legacy costs, mostly retiree health and pension benefits. Any day now, GM is likely to get slapped with a junk-bond rating. GM has lost a breathtaking 74% of its market value—some \$43 billion—since spring of 2000, giving it a valuation of \$15 billion. What really scares investors is that GM keeps losing ground in its core business of selling cars. Underinvestment has left it struggling to catch up in technology and design. Sales fell 5.2% on GM's home turf last quarter as Toyota Motor Corp., Nissan Motor Co., and other more nimble competitors ate GM's lunch. Last month, CEO G Richard "Rick" Wagoner Jr and his team gave up even guessing where they'll stand financially at the end of this year.

Worst of all, GM reached a watershed in its four-decade decline in market share. After losing two percentage points of share over the past year to log in at 25.6%, GM has reached the point at which it actually consumes more cash than it brings in making cars, for the first time since the early '90s. GM, once the world's premier auto maker, is now cash-flow-negative. That's a game changer. Without growth, GM's strategy of simply trying to keep its factories humming and squeaking by until its legacy costs start to diminish is no longer tenable. If market share continues to slip, its losses will rapidly balloon.

Normally a company in such straits contracts until it reaches equilibrium. But for GM, shrinkage is not much of an option. Because of its union agreements, the auto maker can't close plants or lay off workers without paying a stiff penalty, no matter how far its sales or profits fall. It must run plants at 80% capacity, minimum, whether they make money or not. Even if it halts its assembly lines, GM must pay laid-off workers and foot their extraordinarily generous health care and pension costs. Unless GM scores major givebacks from the union, those costs are fixed, at least until the next round of contract talks in two years. The plan has been to run out the clock until actuarial tables tilt in GM's favor (a nice way of saying that older retirees eventually will die off). But with decreasing sales and a smaller slice of the market, that plan backfires—leaving GM open to an array of highly unattractive possibilities.

How Bad could It Get?

BusinessWeek's analysis is that within five years GM must become a much smaller company, with fewer brands, fewer models, and reduced legacy costs. It's undeniable that getting to that point will require a drastically different course from the one Wagoner has laid out so far. He is going to have to force a radical restructuring on his workers and the rest of the entrenched GM system, or have it forced on him by outsiders or a bankruptcy court. The only question is whether that reckoning comes in the next year, if models developed by vice chairman Robert A Lutz fall flat; in 2007, when the union contract comes up for negotiation; or perhaps in five years, when GM may have burned through its substantial cash cushion.

Why is it so hard for those inside GM to see the inevitable? Take a step into the Detroit mind-set. No active employee was even alive in 1930, the last time a rival sold more cars in the US than GM. The idea of being no. 1 is etched into the company's DNA—which makes it all but impossible for execs to embrace a strategy of getting smaller. And union leaders have never seen a problem that couldn't be ironed out at the bargaining table. "I think GM and the American auto industry are facing a lot of competition," says United Auto Workers president Ronald Gettelfinger. "But we've always had difficult times." . . .

Let's be clear: GM is not in danger of going bankrupt while it still has a cash hoard. It has a ton of liquidity—\$19.8 billion in cash, marketable securities, and money it can tap from a prefunded retiree benefits fund. . . .

But all that cash just ensures that GM can continue its ways for a few extra years. Without a sharp course correction, GM is on a glide path to disaster. Things got downright embarrassing in April when Toyota chairman Hiroshi Okuda raised the possibility of hiking prices to give GM breathing space, saying, "I'm concerned about the current situation GM is in." (Toyota subsequently backed off.) Wagoner has ratcheted up the urgency level in recent weeks, signaling to unions that he needs relief from GM's \$5.6 billion in annual health care costs and accelerating the delivery of new sport-utility vehicles and pickups by several months. And it now looks like he may bite the bullet and close at least a couple of auto plants to reduce GM's overcapacity. But he probably won't quickly enact a fundamental restructuring of GM's tired business model. And without that, he is relying on new car and truck models to stop the sales slide. That's a high-stakes bet that he probably can't win. . . .

Breakup or bankruptcy are the ghosts of GM's future. They become much more substantial threats if current management can't deliver on its promised turnaround over the next couple of years—or if the board doesn't find someone who has a better idea of how to deploy GM's $468 billion in assets. . . .

What would a healthy GM look like? It might have five fewer assembly plants, building around 4 million vehicles a year in North America instead of 5.1 million. That would slash US market share to around 20%, but factories would hum with real demand, stoked less by rebate giveaways and cheapo rental-car sales. Workers would have a cost-competitive health care plan but would fall back on government unemployment benefits when hard times demanded layoffs. Profitable auto sales and finance operations would fuel a richer research budget, tightly focused on four or five divisions instead of eight.

This new GM might make two-thirds as many models: Chevrolet, perhaps its most recognized global brand, handling trucks and mass-market cars; Saturn, behind its cool new Euro styling, selling more expensive cars with design flair. A resurgent Cadillac would parade advanced technology and luxury. Hummer would only last as long as brawny SUVs are hip. GMC, which is very profitable these days, would stick around if Chevy couldn't satisfy America's yen for trucks. Pontiac, Buick, and Saab would follow Oldsmobile to the scrap heap.

Maybe Wagoner will decide to bite the bullet and spend the billions needed to launch such a dramatic overhaul now, rather than waiting. And maybe the UAW leadership will get religion and offer more than token help. Where they decide to take GM will matter a great deal to the army of auto workers toiling away in its factories, the vast web of businesses that feed off of them, and legions of investors. As we learned a long time ago from outfits like AT&T, no company is too big to fail, or at least shrink dramatically. Not even mighty GM.

Questions for Discussion

1. What are the external and internal forces for change at GM?
2. Using Figure 18–2, how would you classify the changes occurring at GM? Explain.
3. Use the systems model of change to diagnose the problems that GM is facing and their associated causes. Based on this assessment, what would you recommend that Rick Wagoner do over the next two years? Discuss.
4. Based on GM's past organizational culture and business practices, do you expect employees to resist organizational change? Discuss your rationale. If you predict resistance, discuss what management can do to reduce it.
5. Based on everything you have learned about organizational behavior, what is your opinion about GM's approach to organizational change? Explain.

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