

GM at 100 Governance

Durant, Sloan set precedent for future GM leadership

By **CHUCK GREEN**

SPECIAL TO CRAIN'S DETROIT BUSINESS

Managing a multifaceted, growing company didn't come naturally to William Durant, the charismatic founder of **General Motors Corp.**

His vehicles, however, attracted buzz from the start.

"From the beginning, the American public absolutely loved GM products," said Gerald Meyers, professor at the **University of Michi-**

gan **Stephen M. Ross School of Business.** "They excited consumers."

Durant loved buying companies. Managing them, however, was another thing. Jim Leyland, he wasn't.

"He was a great salesman but a lousy manager," said Mike Smith, director of the Reuther Library at **Wayne State University.**

Perhaps not surprisingly, therefore, GM "was born out of a helterskelter of all kinds of manufacturing and sales operations," said

Meyers, who described it as a collection of disparate companies competing with one another and separate managements.

"It was very loosely run from the top," he said, adding that Durant ran his new acquisitions more like holding companies. Durant did, in fact, develop a single holding company with various car lines.

As a result, production duplication was common, including overlapping brands and models and,

consequently, a large proliferation of components, said Harry Pearce, former GM vice chairman.

While GM was aware of and ultimately resolved its management issues, Pearce said it probably should have seen and addressed its mistakes sooner. Experts say it also can continue to learn from its past missteps.

Under Durant, GM was "managing in the dark," said Dan Raff, associate professor of management

at **The Wharton School of Business at the University of Pennsylvania.** "It was completely chaotic and essentially unsupervised."

The company's lack of control systems regularly prompted general managers of individual businesses to invest in inventories unconnected to any coherent vision of future demand, he said.

While financial difficulties put the brakes on his tenure in 1910, Durant resurfaced in 1916 — along with his less-than-stellar management techniques. "He didn't learn his lesson. He went on a spending binge, and once again there was no rhyme or reason (as far as) how companies he purchased would fit within GM, so they were left alone," according to William Pelfrey, a former GM communications executive.

Conditions changed dramatically when Durant brought in icon Alfred Sloan as a vice president, said Pelfrey, author of *Billy, Alfred and General Motors*. Pelfrey said Sloan swiftly became disenchanted with Durant's personal style, which Pelfrey described as "almost schizophrenic."

Sloan made sense of the organizations Durant brought on board by implementing a system called "decentralized operations with coordinated control." While they continued to run their own business, under this structure units were overseen by policy committees composed of top GM executives who allocated capital and monitored the performance and balance sheet of each unit. "It worked for nearly 50 years," Pelfrey said.

While describing Sloan as dour, Raff said Sloan, who became GM president in 1923, was a managerial genius. He helped steer the company through the Great Depression. During that period, GM did not lose money and actually gained market share despite the decline in total industry sales. GM sales suffered less than others, and GM took market share from everyone else. Sloan sped up GM's production line while reducing its workforce. The strategy was mimicked by others, inside and outside the industry.

Sloan also established market segmentation, with each brand's products aimed at a different segment to prevent competition among brands.

Meanwhile, he kept an eye on the bigger picture. For instance, Sloan recognized GM needed to evolve with technology and the marketplace, which was becoming increasingly competitive, observed Pearce. In GM's early days, he said, foreign competition was scant.

"The Japanese were unheard of, and the quality of their initial products was poor," Pearce said. Furthermore, there were no Korean or European products in the U.S. "We had the market to ourselves."

That is until the national economies transformed into the global economy that exists today, which "completely transformed how you have to compete." Pearce

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GM at 100 Governance

HARRY PEARCE: IT'S GOOD TO BE AFRAID

GM ARCHIVE
The freewheeling style of Billy Durant changed when Alfred Sloan was brought in as a vice president. Sloan implemented a system called "decentralized operations with coordinated control."

You might say that Harry Pearce is a believer in running scared. While the former **General Motors Corp.** vice chairman is confident in the company's corporate structure for the future, he's savvy enough to know you never really quite arrive at the finished product. "You never want to believe you've got it right." When he was with GM, he said he always preached that the greatest threat to the company — even during high times — was that it would cost the company its focus, and the company would forget those periods when the economy was sputtering. "That's inevitable, so you

always want to continue to run scared." He feels that philosophy is shared by CEO Rick Wagoner.

Pearce also believes that in the new global economy, virtually any company in any industry, no matter how well-structured, faces increasingly fluid and dynamic markets requiring constant reinventing and retuning of the business. "In the global economy we operate in today, the search for excellence in everything you do must never end. And if and when it does, a business' decline has probably already begun."

— Chuck Green



Pearce

considers that a strength of today's GM.

He also said GM's EV1, launched in 1995, laid the foundation for electric propulsion, which has now become a staple in hybrids. Furthermore, he labeled GM's move to establish a sophisticated worldwide purchasing organization, initiated in the early 1990s for materials acquisition, one of the great breakthroughs for the company.

He noted that it started to transform the design and development of motor vehicles and allowed GM to seek suppliers across the globe, saving billions of dollars in the cost of vehicle materials, engineering and design.

However, some of Sloan's ideas might have become barriers, said Pelfrey. In the 1950s and 1960s, for instance, when GM was wildly large and successful, the committee structure he established on the financial side became a bureaucracy. But because it had succeeded at one point, it was difficult to change a culture so immense, he said.

Nevertheless, in their distinct ways, Durant and Sloan set a precedent for the leadership that's permeated GM through more recent decades. Most recently, Jack Smith, and now Rick Wagoner, have picked up the reins, said Pelfrey.

"Jack made a tremendous push into emerging markets, especially China," he said. He also pointed out that GM was not expected to be the presence there that it is, and that until the 1990s GM had been a U.S.-focused company.

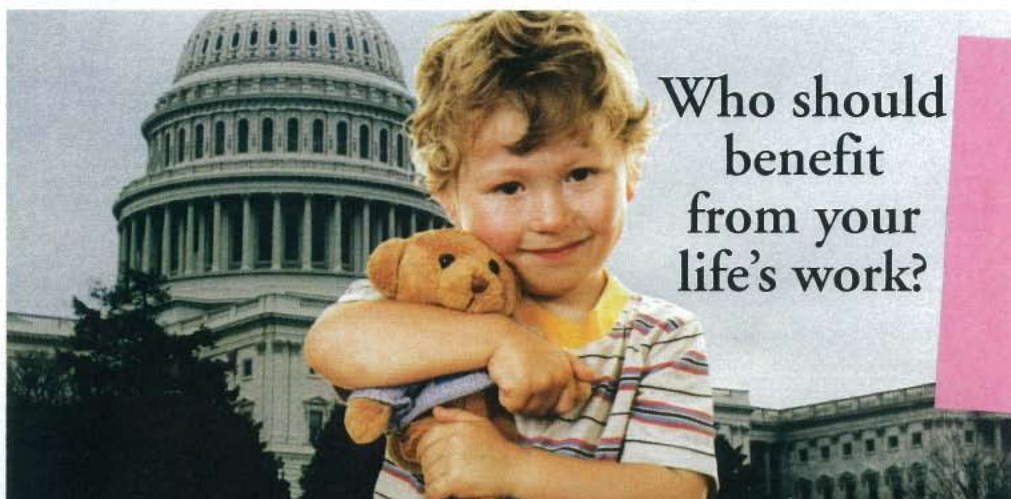
Pelfrey said Smith also started breaking down fiefdoms and got everyone on board with common processes. For example, all purchasing departments were combined under one worldwide unit. Since Wagoner became CEO in 2000, he's accelerated efforts to operate as a single global company.

GM's practices have influenced how businesses in Detroit and the world have been organized. Companies in a wide range of businesses today are going global, and the biggest growth in virtually every product and service is taking place in emerging markets, said Pelfrey.

Thanks largely to Wagoner, Pearce said, GM is well-positioned in North America too. "He has an intense focus on the product program and cost structure."

Pearce is bullish on GM's overhaul, although he said more progress is required.

"Rick would be the first one to tell you there's a lot more work to do," he said. "There always is."



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