

# Blog Entries about General Motors

Excerpts from blog, [www.usrevolution5.com](http://www.usrevolution5.com)



## Contents

#41 POTUS Asks Jordan to Write about GM	2
#42 The GM Story: Safety Played 2nd Fiddle?	3
#43 Beginning My Years with General Motors	5
#44 Sloan's Segmentation Works, then Trashed by Bean Counters	8
#45 GM's Organizational Structure Helped Build an Economic Engine	12
#46 How CEO Personalities Affect the Organization .....	14
#47 Small Car Setbacks Tarnish GM Image	17
#48 Squeaky Reigns and It Starts to Rain .....	20
#49 More Rain Under Roger's Reign .....	23
#50 GM Saturn: Where Was the Proctologist? .....	28
#51 The Electric Spark .....	32
#52 Value of GM EV1: Holistic Cow .....	35
#53 GM Lets the Batteries Drain on EV1 .....	39
#54 EV1 Ends CEO's Tenure. Bean Counters Reign, Again. ....	41
#55 Wrap-Up of the GM Story...for Now .....	44
#56 Catching Up with JC. Can't Shake GM. ....	47
#57 Being Fair Is Good for GM and Good for the Country .....	49
#136 Corporate Behavior: GM and Ignitiongate (June 2015) ...	53
#137 Corporate Behavior: GM Ignitiongate con't .....	57

## #41 POTUS ASKS JORDAN TO WRITE ABOUT GM (ENTRY APRIL 2014)

*Scene: Jordan's office.*

Gelly (Jordan's assistant): "Jordan, POTUS is calling."

Jordan: "Good morning, Mr. President."



POTUS: "Morning Jordan. You alive and well today?"

Jordan: "With a question like that I'm not sure. But, yes, I'm fine. Thanks."

POTUS: "I need a favor. Call it a payback for setting up the meetings about rebuilding Detroit."

Jordan: "What's the issue?"

POTUS: "The special election resulted in some good changes to Congress. The parties are starting to work together again."

Jordan: "Glad to hear it."

POTUS: "What the country needs next is to begin addressing economic policy."

Jordan: "I'm not a PhD economist."

POTUS: "We have plenty of PhD's around. What I need is some real-world experience. The experience needs to be relevant for policies about rebuilding manufacturing and rebuilding the middle class."

Jordan: "How can I help?"

POTUS: "The question that keeps popping into my head is why the USA was so successful at generating wealth for the society in the 1950's, 1960's and even the 1970's. And we have made no progress since."

Jordan: "The economists can probably analyze that for you."

POTUS: "I'm not looking for some academic analysis. I want a different perspective. And I know you have one."

Jordan: "What kind of analysis would be helpful?"

POTUS: "You spent a number of years at General Motors in some very interesting jobs. I also know you are a student at heart."

Jordan: "You got that right. I love taking classes and I love to teach."



POTUS: "OK, then let's combine the two. I'll give you an assignment and then the opportunity to teach."

Jordan: "Alright. What am I getting into?"

POTUS: "For many years GM was an economic engine with remarkable revenue, remarkable market share and even more remarkable profits. It was the...capital THE...manufacturing company worldwide."

Jordan: "True. GM made lots of products, employed lots of people and paid lots of taxes -- federal, state and local."

POTUS: "Years ago, Charles Wilson..."

Jordan: "...also known as Engine Charlie Wilson..."

POTUS: "See you do know this stuff. Anyway, Charlie Wilson said '...**what's good for General Motors is good for the country, and vice versa.**'"



Jordan: "And I think what Engine Charlie said is still correct."

POTUS: "Well, Jordan, now you know why I called you. I would greatly appreciate if you would write a series of articles about GM. What went right and then what went wrong, terribly wrong."

Jordan: "Funny you bring up that idea. I've thought for a long time about writing such articles but never had a reason."

POTUS: "Now you have that reason. Understanding what went right and wrong at GM will help me and many other people trying to set economic policy."

Jordan: "If I heard you correctly, you want my perspective on GM and not some widespread study by a bunch of people."

POTUS: "To answer your question, 'yes.' I understand some people might not agree with your analysis. But the point is to get your perspective, not some politically correct version scrubbed by a PR agency. You don't learn from sanitized versions of situations."

Jordan: "Not to worry. You'll get the un-sanitized version. And like any series of events, doubtless there will be...and probably should be...other opinions. But I'll give you my perspective."

POTUS: "Good. The articles should really help."

Jordan: "Anything else?"

POTUS: "Only that you cover why GM became such an economic juggernaut and then what lead to the bankruptcy."

Jordan: "Which bankruptcy?"

POTUS: "You mean there was more than one BK?"

Jordan: "You'll have to read the story. I do have one request for this project."

POTUS: "What's that?"

Jordan: "May I get someone from your staff assigned to help me? I want the person to act as a reporter and help with the writing and maybe some research. I'll provide all the key info but an extra person would be great."

POTUS: "Consider it done. Now you better get off the phone and get to work. Good bye Jordan."

Jordan: "Good bye, Mr. President."

## **#42 THE GM STORY: SAFETY PLAYED 2ND FIDDLE?**

*Scene: Jordan's Office. Reporter assigned by POTUS' office arrives.*

Jordan: "Matt, it has been a long time since we chatted."



Matt: "I'm trying to think of the last time I interviewed you. A lot less gray hair on both of us. But, now we're more experienced."

Jordan: "You're still with my favorite paper but most of the bylines are articles about technology."

Matt: "True but apparently POTUS read some earlier pieces I wrote on automotive and thought I was right for the job."

Jordan: "I'm delighted you've been assigned."

Matt: "Keep in mind I still want to be as objective as possible so you might get some pushback from me on certain issues."

Jordan: "Understood. In fact, feel free to challenge me at any time. The gist of the story is more about culture than anything else. And my perspective. Let me know if you think I am being too biased"

Matt: "I'll tell you what would help. A short lesson in GM history. Not all the gory details but an overview would really help me put the project in context. And make sure you cover the financial results. I know you think the issue is more culture but the financial results tell a story, too."

Jordan: "I agree that the financials tell a story. A great story for many years. Before we start the history lesson, are there any pressing issues?"



Matt: "Yes. This baffles me. The **ignition switch** – how did GM ignore a safety problem with the switch for what, 10 years? How does that stuff happen?"

Jordan: "My view is the failure to fix the ignition switch – a \$1.00 part at most – is the culmination of 30+ years of a management team and Board of Directors focused on profits and not the customer."

Matt: "Your tone of voice tells me how angry you are."

Jordan: "Angry is an understatement. A few clowns decided to ignore very strong evidence of a safety problem. The cost to fix was less than \$1.00."

Matt: "Why do you think they ignored the evidence? The fix was, from all indications was simple and as you said, less than \$1.00."

Jordan: "You tell me why they ignored it. That kind of behavior qualifies GM as stupid and I think immoral."

Matt: "What about criminal?"

Jordan: "I am not at Department of Justice and do not have all the facts. But not to fix a known safety problem for \$1.00. What's wrong with those people?"

Matt: "Did you ever experience any decisions where cost overrode safety?"

Jordan: "No. Just the opposite. I recall my days at Buick when we were going to add some piece of equipment that increased the weight. I don't remember which car but the weight was only a couple of pounds over the limit for the tires and wheels."

Matt: "What happened?"

Jordan: "The tire-and-wheel engineer interrupted the presentation and said the car needed a larger tire and wheel to handle the added weight."

Matt: "Even though it was only a couple of pounds? Was there any discussion or resistance?"

Jordan: "None. The guy had the power of a king. When it came to safety, you did what he said. No questions asked."

Matt: "So safety was an overriding concern."

Jordan: "Absolutely."

Matt: "What happened to that culture?"

Jordan: "That is a key issue. To help answer that question let's go back to the beginning of General Motors."

Matt: "Alright. But I need a break first."

Jordan: "So do I. How 'bout 10 minutes?"

### #43 BEGINNING MY YEARS WITH GENERAL MOTORS

Jordan: "First bit of trivia. Matt, how many times has GM gone bankrupt?"



Matt: "One that I know of – 2009. That's when the Feds put in a lot of cash and got a lot of stock in return. People started calling it Government Motors."

Jordan: "A lot of people thought the Feds should have let GM die. Doing so would have been a huge mistake. We can discuss why in another session...but not today."

Matt: "OK, I give. How many times has GM gone BK, or bankrupt?"

Jordan: "Three. 2009, then twice before 1920. The first was about 1909 and the second about 1919. We need to get exact dates but close enough for now."

Matt: "Three times. That's a surprise."

Jordan: "And they might survive all three."

Matt: "What happened in 1909 and 1919?"

Jordan: "The short version is this. Rapid expansion of production and rapid sales growth without proper financial controls. The result was the deadly sin – running out of cash."



Matt: "So unlike 2009 when demand was weak, the other two times demand was strong. But GM expanded too quickly...really beyond their ability to raise enough cash to finance the growth."

Jordan: "Yes. And that reminds me of my first day in finance at MIT."

Matt: "Alright. First day of finance class. What happened?"



Jordan: "The professor begins the class by saying, 'Ladies and gentlemen, if you learn nothing else the entire time you are at this esteemed institution, I want you to remember one thing. It does not matter whether your income statement indicates you made money or lost money. The only thing that matters is...never run out of cash.'"

Matt: "Well, GM management apparently didn't go to that class."

Jordan: "A lot of people seemed to have skipped that class...a hundred years ago and now."

Matt: "OK, GM goes BK. But in 1919 there is no government bailout. Who bailed them out?"

Jordan: "My view is the second BK and the bailout is the beginning of when GM became the economic juggernaut. The bailout was from the DuPont family. DuPont's, already an investor, put in a boatload of cash and ended up with a boatload more shares – 30-35% ownership."

Matt: "Anything else happen?"

Jordan: "The cornerstone for GM's future success. Pierre DuPont, chairman of the Board, installs Alfred P. Sloan as president."

Matt: "Is that the same Sloan as Sloan-Kettering Hospital in NY...and the Sloan School at MIT?"

Jordan: "The same Alfred Pritchard Sloan. Sloan was an MIT grad. And I think he implemented three major ideas that separated GM from the pack."



Matt: "Under Sloan, GM operated differently than other car companies?"

Jordan: "Very much so. GM set a new standard. The ideas were adopted eventually by the other car companies and most other manufacturing companies. And the ideas are still relevant today."

Matt: "I'm anxious to hear more but is the story going to get too complicated for people to understand? We have to keep the story out of the weeds and make sure it is understandable."

Jordan: "The topics might seem a bit deep at times. But this is not a story told in sound bites. Success does not come with slogans and talking heads...despite what some people think."

Matt: "Alright but really try to KISS – keep it simple, stupid."

Jordan: "In my estimation, Sloan's three major contributions were: (i) implementing understandable financial controls (ii) clearly separating GM's different brands (iii) separating strategic and operational decisions."

Matt: "I sort of understand financial controls and separating brands. Separating strategic and operational decisions is a bit more abstract."

Jordan: "OK, let take these one at a time, starting with financial controls."

Matt: "Are you talking about say authority to write checks and keep accurate books?"

Jordan: "Yes, but there is much more. What is hard to understand now with computers, electronic databases and scanning equipment is companies were run using information written on index cards and hand-written ledgers."

Matt: "That is hard to imagine."

Jordan: "Imagine this – and I think the date is about right – until the mid-1920's Ford Motor Company operated without any real accounting system."

Matt: "Ford had become a huge company by then...and no real accounting system?"

Jordan: "GM before Sloan was similar. But Sloan brings systems thinking. Systems for accounting, systems for cash management and systems for forecasting production."

Matt: "What you're saying is GM went from shoe-box accounting to at least reconciling bank statements and creating a budget."

Jordan: "In very simple terms, yes. However, it is hard to overstate the importance of the discipline Sloan began instilling in the company."

Matt: "Wasn't it just an accounting system?"

Jordan: "No, it was creating a culture of being accountable. Having a system in place allowed performance to be measured."

Matt: "You're saying the measurement system – production, cost, etc. – allowed measurement of the performance of individuals and groups. And the measurement made them more accountable."

Jordan: "Exactly. Individuals and groups began to understand what needed to be accomplished and how well they performed."

Matt: "Have a specific example?"

Jordan: "Yes, and I hope it is not too abstract. But I think critically important to GM's success."

Matt: "What is it?"

Jordan: "Budgeting is critical in the auto industry...and any industry with high fixed costs. The company must generate enough sales to pay for all the fixed cost before it begins earning a profit."

Matt: "Like the sales person on full commission. He or she needs to sell a certain amount just to cover expenses – mortgage, utilities, groceries, car payment, fuel. Then sell some more just to have some spending money."

Jordan: "Good example. And the higher the mortgage payment and car payment, the more the person has to sell."

Matt: "But the sales person never knows how much will be sold, and therefore never knows what the commission check will be."

Jordan: "Car companies face the same problem. When the economy is good, people have more money and buy more cars. When the economy is not so good, people put off buying a new car and sales fall."

Matt: "What was so innovative about what Sloan did?"

Jordan: "Sloan created a budgeting procedure such that GM broke even profit wise at 70% of its capacity."

Matt: "So if the company had capacity to sell 1,000,000 cars for a certain year and sales were only 700,000 cars for that year, GM would break even...really, not lose money? That idea seems so simple."

Jordan: "The idea is incredibly simple but very hard to execute. Forcing the execution helped create a culture of the importance of managing costs."

Matt: "So budgets were built around 70% of capacity. Still not sure if I understand the significance. And does the process have a name?"

Jordan: "The budget was called a 'standard-volume budget.' Focusing on 'standard volume' helped people form a discipline of controlling costs. Early in my career I was assigned to coordinate the budget process for Cadillac. The budgeting process was not easy and not very pretty. A lot of negotiating, arm twisting and cajoling. By the end everyone involved understood the importance of controlling costs."

Matt: "Obviously left quite an impact on you. What's the second point?"

Jordan: "All sales above 70% of capacity were very profitable...and I mean very profitable."

Matt: "How often did sales fall below 70% of capacity?"



Jordan: "Not very often, even in the Depression. In fact, GM made money every year from the early 1920's and throughout the Depression."

Matt: "You're kidding?"

Jordan: "GM made money while many car companies went out of business. Duesenberg, Cord, Auburn just to name a few."

Matt: "So how many years in a row was GM profitable?"

Jordan: "70+ years. From the early 1920's to the early 1990's."

Matt: "What a run. What happened?"

Jordan: "This is a good time to take a break. Sloan implemented a couple more key ideas that made the 70-year string possible...and the string should still be going on. We can talk about what went wrong after we talk about what went right. Let's take a break."

#### **#44 SLOAN'S SEGMENTATION WORKS, THEN TRASHED BY BEAN COUNTERS**

*(Scene: Jordan's office with Matt, reporter asked by POTUS to help Jordan write story why GM was so successful and why it failed. Report will be used as part of effort to rebuild US-based manufacturing.)*

Jordan: "Ready for some more GM history under Sloan?"



Matt: "Have my coffee and ready to listen."

Jordan: "In addition to the financial discipline, Sloan segmented GM's brands."

Matt: "Segmented in what way?"

Jordan: "I know the term segmentation seems obvious today but it was not going on 100 years ago. At the time there were 20 or more car manufacturers with a wide variety of products."

Matt: "So GM had several brands at the time, didn't it?"

Jordan: "Buick, which was really the cornerstone for GM, Cadillac and Oldsmobile."

Matt: "What about Chevrolet and Pontiac?"

Jordan: "Chevrolet became part of GM in 1918. Pontiac in the mid-1920's."

Matt: "Saturn was when?"

Jordan: "Saturn, Hummer, Saab are part of GM post 1980. We'll talk about those brands later. For this paper we'll skip some other GM brands – Oakland and LaSalle and all the brands sold outside the US – Opel, Vauxhall, Holden's. Including them will just confuse the issue."

Matt: "So under Sloan GM analyzes the car market, segments it and then decides on roles for the different brands."

Jordan: "Exactly. What he...I mean GM...tried to implement was clarity. Clarity so people inside and outside the company knew what each brand stood for."



Matt: "I never thought about people inside the company not knowing what a brand stood for. Seems obvious."



Jordan: "Remember, at the time Ford was selling only the Model T. GM models were higher priced so buyers and people selling GM cars needed to understand what each brand stood for and why it was worth more money."

Matt: "What was the segmentation strategy?"

Jordan: "'A car for every price and purpose.' Remember, the car market is still emerging. Most of the segments we have today did not exist."

Matt: "Chevrolet covered the lower end. Oldsmobile, Buick middle to lower upper end. Cadillac the higher end. Pontiac filled a gap just above Chevrolet. Even before Pontiac, GM offered cars for most everyone."

Jordan: "Many buyers wanted to move away from the Model T 'one-size-fits-all' approach. After owning a couple of Model T's...that look identical to every other Model T...buyers wanted something different."

Matt: "Sloan's segmentation is another idea that seems so simple. How successful was it?"

Jordan: "GM, actually Chevrolet, outsold Ford Motor Company for the first time in 1926 or 1927. While I think Sloan was a genius, Henry Ford helped GM by sticking with the Model T too long. During Ford's changeover to the Model A, GM became the #1 seller."

Matt: "Did Ford bounce back and overtake GM?"

Jordan: "Since then GM has outsold Ford nearly every year, if not every year. GM was the #1 car company until 2008, when Toyota outsold it worldwide for the first time. The companies have switched leads several times since."

Matt: "When was GM at its peak?"

Jordan: "In the 1950's and 1960's, GM accounted for more 5 of every 10 cars sold in the US. GM also has the #1 brand refrigerator and the #1 train locomotive."



**THE NEWEST GENERAL MOTORS DIESEL**  
*—world's most modern locomotive—*

Matt: "What? GM had the #1 selling refrigerator and the #1 selling locomotive?"

Jordan: "And to help finance cars, GM started a finance company – General Motors Acceptance Corporation. In fact, GM was so dominant in so many areas the Federal government began an anti-trust investigation."

Matt: "What a change. From anti-trust and too large to government bailout. Hard to imagine what a machine they were."

Jordan: "That's why POTUS wants this series of articles. What lessons can we take away that can be applied today?"

Matt: "So GM peaks in the 1960's or maybe later and then starts to slide. Did GM management quit following Sloan's principles?"

Jordan: "Yes but not all at once. We'll talk more about this later but in the early 1980's the GM CEO declared that profitability was more important than market share."

Matt: "Doesn't a company have to have market share to generate revenue...and profit?"

Jordan: "Low market share leads to lower total profits. The percent profit per car might look good but at the end of the day the stack of dollar bills is smaller."

Matt: "What was the rationale?"

Jordan: "GM could 'optimize' earnings and shareholder value by focusing on selling only cars and trucks with certain profit."

Matt: "What happened to Sloan's segmentation scheme?"

Jordan: "Part of the plan to reduce cost was to reduce the differentiation between the brands. Doing so would allow certain development costs to be spread over more cars...and customers would never know, or so GM management thought."

Matt: "With this plan, programs that made Chevrolet different from say Pontiac under Sloan would be reduced or eliminated."

Jordan: "Exactly. The plan was that separation between Buick and Oldsmobile could also be reduced. Even Cadillac would be affected."

Matt: "But some of this narrowing of brand differentiation started before the 1980's."

Jordan: "True. But if you look at GM market share, the point of inflection is in the 1980's."

Matt: "Did the plan work?"

Jordan: "In one word, no. In fact, the 'de-proliferation' plan made an already difficult situation worse. GM share at the beginning of the 1980's was about 45%. By the end of the 1980's it was about 35%."



Matt: "What does that mean in terms of sales volume? How much loss is that?"

Jordan: "1.2-1.5 million cars and trucks per year."

Matt: "Wow. How many assembly plants is that?"

Jordan: "Equal to all the production of 5-6 assembly plants per year. 5-6 plants two shifts, 60 cars or trucks per hour, all year long. Not one year but every year. So you think the planned worked?"



Matt: "GM waved good bye to 5-6 assembly plants? How much money did they wave good-bye to?"

Jordan: "The numbers are staggering. Every year GM no longer sold 1,500,000 cars and trucks it used to sell. In today's dollars GM sales price to dealers averages about \$30-35,000."

Matt: "So GM waves good-bye to \$50 billion...\$50 billion dollars revenue per year...out the door. Good-bye. Whose idea was this?"

Jordan: "Only a bean-counter could think up such a back-asswards strategy. Show me one company that saved its way into prosperity? To earn money companies need to generate revenue. You cannot make up profit on \$50 billion in revenue by cutting expense. The math does not work."

Matt: "I am almost speechless."

Jordan: "You should be speechless. It's a staggering number. And we've not talked about what happened to all the GM customer and GM employees as a result."

Matt: "I see now why you insist this story is more than a numbers game. It is about management and how it influences the culture of the organization."



Jordan: "I'll give you one more arrow in the culture quiver. In the mid-1990's GM's CEO had the audacity to state that Sloan's segmentation was no longer relevant."

Matt: "Was he right?"

Jordan: "Segmentation criteria might get tweaked a bit over time but the fundamentals do not. Segmentation in the 1990's was as important as in the 1920's."

Matt: "Why do you think the CEO claimed Sloan's segmentation was no longer relevant?"

Jordan: "I don't know for certain. But given his background, he thought the reason GM lost so much market share was Sloan's segmentation. He never considered that by ignoring Sloan's segmentation, especially in the 1980's, GM lost market share."

Matt: "Another case of back-asswards thinking. May we take a break, please? My head hurts."

## #45 GM's ORGANIZATIONAL STRUCTURE HELPED BUILD AN ECONOMIC ENGINE

Matt: "I'm still dumbfounded over the last session. But we have one more segment to go on Sloan – organizational structure. Why was it so important?"



Jordan: "Couple of reasons. Maybe the most important is Sloan understood people like to identify with an organization or with a brand. Ask some people who they work for."

Matt: "You mean like Apple, or Honda or Starbucks?"

Jordan: "Right. Do you ever hear anyone say, 'Gee I work for this acronym of a holding company.'"

Matt: "No, other than a few Wall Street types."

Jordan: "When GM was at its best, the divisions – Cadillac, Buick, etc – were effectively independent companies. The employees – hourly and salary – the dealers, even some of the suppliers would say 'I work at Buick.' And notice I used the word 'at' and not 'for'. Because the employees felt part of the team."



Matt: "Did anyone ever say I work at General Motors?"

Jordan: "Rarely, if ever. Even when I worked on the corporate staff in New York, we used to identify ourselves as the Treasurer's Office, New York, aka TONY."

Matt: "All these divisions sound great but wasn't it inefficient to allow so much autonomy? There must have been a lot of overlap and extra cost."

Jordan: "You sure you aren't a bean counter?"



Matt: "Jordan, you know I'm not. But still, seems like a lot of unnecessary overhead."

Jordan: "Matt, take a deep breath and listen. Keep in mind how large the divisions were. For example, Buick Division was larger than say all of Goodyear Tire and Rubber Company. That's Goodyear worldwide. And Buick was not especially large in GM."

Matt: "I had no idea each division was that large a business."

Jordan: "Well, now you know what an economic engine GM was. Sloan understood the economic engine was fueled by sales. And he understood that clear brand identity was critical for sales."

Matt: "Is identity with the brand the foundation for creating an emotional bond?"

Jordan: "For a reporter, you're not bad marketer. Absolutely. Establishing an emotional bond is important for all types of products."

Matt: "You have some examples?"

Jordan: "Jump from brands of cars to brands of electronics. In a somewhat cynical way, you can think of most computers, phones and other electronic equipment as just pushing around electrons."

Matt: "I suppose not much different than looking at a car as mere transportation."

Jordan: "And for some buyers that's true. But many, many buyers develop an emotional bond with their product. When thinking about buying electronic equipment some people are die-hard Apple fans;

others are in love with Google. And still others are die-hard Microsoft fans. And the same applies to cars and trucks."

Matt: "Now that you mention it, my grandfather used to refer to himself as a proud 'Buick' man."



Jordan: "Mine did as well. That's why I was so happy to be assigned to Buick after the Sloan program."

Matt: "Was your grandfather alive then?"

Jordan: "No. But many times when talking about Buick product or dealers I would think of him...and one product in particular. While I was at Buick we introduced...really re-introduced... a large rear-wheel drive sedan. And guess what we called it?"

Matt: "Roadmaster?"

Jordan: "You got it. The name Roadmaster fit perfectly. My grandfather loved his Roadmasters. But the funny part of the naming story happened during some consumer research of the car."

Matt: "What do you mean?"

Jordan: "We had a fiberglass model of the car in a research clinic but no badge identification."

Matt: "You mean like no Ford oval or Chevrolet bowtie?"

Jordan: "No markings at all. Anyway, this young lady gets a first look at the car and says without any prompting, 'That looks like a master of the road. A road master.'"

Matt: "So that cemented any doubts about the name."

Jordan: "I could not have scripted it better."

Matt: "OK, so Sloan allows the divisions to operate fairly autonomously. You also mentioned the New York office. What was the name again, TONY?"



Jordan: "The Treasurer's Office, New York operated as a consulting group. TONY was to be a voice away from the day-to-day activities at Detroit HQ and the 'hype' at the car divisions."

Matt: "'Hype' seems a bit pejorative. I mean the car divisions weren't all used-car sales people."

Jordan: "Actually only dealers sell used cars but I know what you mean. The divisions were vertically integrated and included engineering and manufacturing staffs. But like organizations with a product, the goal for the divisions was to sell more products."

Matt: "I still think 'hype' is a bit too much. Still too much like used-car sales people."

Jordan: "OK. How 'bout 'enthusiastic'?"

Matt: "That works. Back to New York office."

Jordan: "Recall that GM's bankruptcies in 1909 and 1919...we need to confirm those dates... were not caused by lack of demand but by running out of cash."

Matt: "Did Sloan set up some type of system to manage cash?"

Jordan: "I don't know all the background but any expenditure beyond a certain dollar amount had to be reviewed and approved by corporate staff...or even the Board."

Matt: "And that was TONY's role?"

Jordan: "Yes. We worked directly with the chairman, coordinating the meetings, providing the analysis and making recommendations. Plus the group developed forecasts of demand. TONY even had an Economist's Staff."

Matt: "You mean with real PhD economists?"

Jordan: "Yes, I worked on that staff for a while. And no I am not a PhD economist. But I am a decent model builder and forecaster. At least I was."

Matt: "The NY office really does sound like a consulting group. What about the Treasury function?"

Jordan: "When the office was established, being close to Wall Street was important. Far less so today."

Matt: "What I've heard so far is GM was at its best when the divisions operated fairly independently and with their own engineering and manufacturing staffs. Doing so created...or at least helped create...strong brand identity, which helped build an emotional bond with customers and with employees."

Jordan: "Good summary so far."

Matt: "In addition, GM had a separate office in NY to oversee use of capital, both internally and as a treasury function."

Jordan: "Let's take a break. Next session we'll talk about how some organizational changes in the 1980's began to destroy Sloan's formula for the economic engine."

## #46 HOW CEO PERSONALITIES AFFECT THE ORGANIZATION

*(Scene: Jordan's office with Matt, reporter for major publication. Matt asked by POTUS' office to help write the story of GM. POTUS wants to use the information as part of a plan to help rebuild US manufacturing.)*

Jordan: "Before we discuss how some changes to the GM organization affected culture, I want to discuss personalities."



Matt: "Not more warm and fuzzy stuff, I hope. Where's the meat to the story?"

Jordan: "POTUS asked me to write about GM and lessons for rebuilding US manufacturing. Part of the story is how CEO's can affect the company's culture and competitiveness."

Matt: "Keep talking...but it still sounds warm and fuzzy."

Jordan: "Think about what we've covered so far. About 100 years ago GM goes bankrupt twice in less than 15 years. Then a new management team comes in and voila, GM becomes a profit machine."



Matt: "GM printed money for many decades."

Jordan: "So what changed at GM? My contention is the CEO at GM...and any organization...has more influence than most people realize."

Matt: "What about the board of directors? Don't they select the CEO?"

Jordan: "The board might not realize how influential the CEO is, especially a CEO that is bad for morale."



Matt: "So a bad guy at the top can influence an entire company? You really believe that?"

Jordan: "You know the expression about stuff flowing downhill. Well, it's true at companies too."

Matt: "Never really thought about it. Have you got a GM example?"



Jordan: "Alright. I want to compare a few GM CEO's after Alfred P. Sloan. The comparison won't be just dollars and cents but personalities."

Matt: "Then can we talk organizational structure?"

Jordan: "Without understanding the personalities, the changes in the organizational structure will mean less."

Matt: "I assume the story will have at least one good guy and one bad guy. Start with the good guy."

Jordan: "GM's CEO in the mid to late 1970's was an example for everyone to follow, CEO on down."

Matt: "Who was that?"

Jordan: "T.A. Murphy. Or as he used to say when I answered my boss' phone after hours, 'Tell him Thomas Aquinas Murphy is calling.'"

Matt: "You mean the CEO made his own phone calls?"

Jordan: "Yes, made his own phone calls. I told you he was a good example."

Matt: "Give me a meatier story...or two."

Jordan: "Some years before he became chairman, he was head of GM's NY Treasurer's Office."

Matt: "And..."

Jordan: "Any time anyone from that office retired, he insisted on attending the retirement party. We had to schedule the parties the night of the Board meeting to make sure he was available."

Matt: "Are you talking about executives retiring or anyone in the office?"

Jordan: "Anyone, including the former elevator operator from the old GM building."

Matt: "So the CEO of the world's largest company insists on attending retirement parties of former staff in the NY office...even elevator operators. That is unusual."

Jordan: "Here's one better. And I'll tell you I've never seen any written proof but I've heard the story from different sources who know the parties involved."

Matt: "This I am anxious to hear."

Jordan: "Murphy is head of the NY office and a staff member – and we are not talking management or high-potential employee but a regular staff member – becomes an alcoholic."

Matt: "Does GM have a paid rehab program for alcohol and drug addiction?"

Jordan: "Not at this time. So the staff person enters treatment. And guess who pays for the treatment?"

Matt: "Murphy. On his own or through the company?"

Jordan: "His own checkbook. Plus he visits her every day in the rehab center."

Matt: "Did anyone know about it?"

Jordan: "I was not there at the time. But, as I understand, Murphy never talked about it. Others did so only discretely. I found out when she retired."

Matt: "What a great example. Hard to believe."

Jordan: "I agree. My facts might be off slightly but the essence of the story is correct."

Matt: "Any other stories?"

Jordan: "Yes and one that always makes me smile."

Matt: "I'm ready."

Jordan: "I work in the NY office...still in my 20's...and still learning the corporate ropes. My job was fairly high profile – what they called 'bag-man' to the chairman. The 'bag-man' coordinated all the presentations made at meetings of the Finance Committee and Board of Directors."

Matt: "So I suppose Mr. Bag-Man spends serious face time with the Chairman."

Jordan: "You had to review all the key points with him and then get answers to a bunch of questions. All the info was in what was called the 'Red Book.' And yes it was the color red."

Matt: "OK, now what?"

Jordan: "At the time, the Board meetings were held in NY on the first Monday of every month. The final review of the Red Book was Sunday afternoon on the plane."

Matt: "Company plane, I assume."



Jordan: "Gulfstream. Now here's the scene. My first flight on the company plane. And no one has briefed me on the dress protocol. All they told me was don't be late."

Matt: "So what did you wear?"

Jordan: "The only clean clothes I had left were casual pants and turtleneck sweater...plus a sport coat."



Matt: "Was that OK?"

Jordan: "I get on the plane...a 10 seater. Eight people are dressed in suits. My thoughts – just blew this opportunity."

Matt: "Then what?"

Jordan: "Mr. Murphy gets on the plane a few minutes later dressed in...guess what?"

Matt: "Turtleneck sweater and sport coat."

Jordan: "You got it. He sees how everyone else is dressed in a suit, then gives me a slight grin."



Matt: "Is there more to the story?"

Jordan: "Next month same situation. Only clean clothes are casual pants, turtleneck sweater and the same sport coat. I head out to the plane, get on a few minutes ahead of the chairman. Guess how the same eight guys are dressed?"

Matt: "Turtleneck sweater and sport coats."

Jordan: "Exactly. Then Murphy gets on the plane in a suit and tie."

Matt: "Seems as if these guys were always chasing and always two steps behind."



Jordan: "I still find the situation amusing...and frustrating. The other executives forgot to be themselves."

Matt: "Interesting story and I agree amusing. But why is it relevant?"

Jordan: "Heads of companies are people. Some CEO's are extremely humble, gracious and thankful. Others in that situation act as if they are kings with unlimited authority and no accountability. More like a dictator."

Matt: "Your contention is companies reflect the personality of the person in charge."

Jordan: "Being humble and gracious does not mean one cannot be firm and hold people accountable."

Matt: "But you do not have to be a jerk or arrogant."

Jordan: "People want to respect those in leadership positions, whether it's in business, religion or politics. But respect does not necessarily come with the position. Respect must be earned."

Matt: "And you believe leadership at GM earned respect...at least leadership through Tom Murphy. Then it changed?"

Jordan: "After Murphy the respect was lost ...actually not earned. And when the respect was gone, what went along with it?"

Matt: "The economic engine that Sloan and other had built."

Jordan: "Now we can start to talk about some things

## **#47 SMALL CAR SETBACKS TARNISH GM IMAGE**

Matt: "Jordan, now start telling me about the transition of GM from economic engine to sputtering engine to dead stop. What really happened?"



Jordan: "I'm going to remind you of two things. The story is my interpretation of events. Historians and others might not agree. Second, the story needs the proper context. Too much emphasis is usually placed on earnings and stock price."

Matt: "You think there's a better measure?"

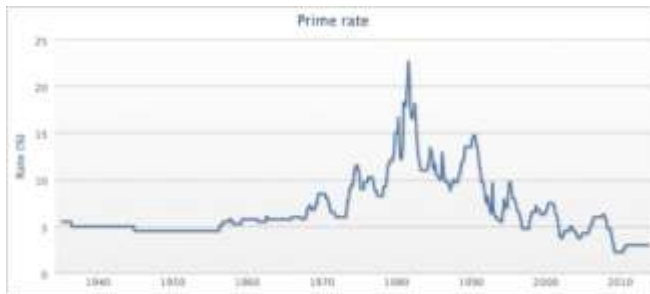
Jordan: "Earnings and stock price are the result of actions, not the cause. We want to talk about the cause. Otherwise the analysis does not contribute to POTUS' effort to help rebuild US manufacturing."

Matt: "OK, let's get to the next phase."

Jordan: "The 1970's were chaotic for the US-based manufacturing companies. The country experienced two oil embargos – 1973 and 1979. There was also hyper-inflation by US standards."

Matt: "What was the prime rate for a while, 15%?"

Jordan: "It stayed over 15% for several years and actually over 20% for a while. Hard to comprehend now."



Matt: "High interest rates impact housing and autos, right?"

Jordan: "For autos, while overall sales declined, the bigger impact was the shift in sales mix – away from large cars and toward smaller cars."

Matt: "How did GM fare?"

Jordan: "Not very well. Here's a bit of info to

show you how rapidly demand changed. First, the used car market does not care what the list price of a new car is. In the used car market, price is set by demand."

Matt: "OK...now what?"



Jordan: "The oil embargo started in October 1973. By January 1974 – three months later – demand for large and small cars has shifted so quickly that the price of a one-year old Chevrolet Vega, a small car, was higher than the price of a one-year old Chevrolet Caprice, a large car."

Matt: "And the list price of the Caprice was what...about twice the Vega?"

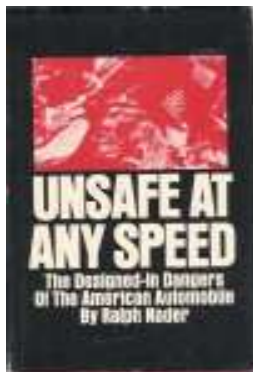
Jordan: "That's a good guess."

Matt: "So GM had been strong in large cars now faced a market wanting small cars."

Jordan: "GM also suffered because the first oil embargo gave the Japanese imports a real chance to make inroads in the US market. Sales were languishing prior to the embargo."

Matt: "OK, back to GM."

Jordan: "GM's first real small car was the Corvair, introduced in the 1960's. Great car until..."



Matt: "Ralph Nader wrote 'Unsafe at Any Speed'. Was that really true?"

Jordan: "Rear-engine cars, which the Corvair was...VW Beetle another...and the 911 Porsche...used to have an inherent disadvantage in front-end crashes."

Matt: "What do you mean?"

Jordan: "In front-end crashes the engine absorbs much of the kinetic energy of the impact. Imagine taking your hand, making a fist and hitting the wall."

Matt: "Ouch."

Jordan: "Ouch is right. Now put on a glove, ideally a boxing glove and hit the same wall."

Matt: "Does not hurt as much, if at all."

Jordan: "Think of the engine of the car as the glove...absorbing the energy from the hit."

Matt: "And rear-engine cars have no glove."

Jordan: "Had, at least not then. Structural engineering has improved significantly since the 1960's."

Matt: "So Nader's points were valid."

Jordan: "I think some of the points were valid. And I also think the benefit of the book has been increased emphasis on surviving accidents – emphasis by government and the auto industry."

Matt: "But the book effectively killed the Corvair. I've only seen a few of them at auto shows. Looks like a great car."

Jordan: "Here's a bit of trivia most people don't know. As a lead in, what car first comes to mind when I say 1960's?"

Matt: "Mustang. Now that's a great car."

Jordan: "The father of the Mustang?"

Matt: "Lee Iacocca."

Jordan: "How do you think Iacocca convinced Henry Ford II and the other executives to commit funds to develop the Mustang?"

Matt: "Don't know."

Jordan: "I don't remember if I read this in a book or heard this from Lee one night over drinks. But in the Ford executive garage he lined up all Chevrolet products on one side and all Ford products on the other."

Matt: "And on the Ford side there was an empty spot."



Jordan: "An empty spot directly across from the Corvair Monza Spyder."

Matt: "So that's how the Mustang came about. To counter the Corvair Monza. Interesting."

Jordan: "But as you know, the Corvair dies after Nader's book."

Matt: "And the Mustang lives a robust life. What did GM do?"

Jordan: "Counter to the Mustang was the Camaro, which lives to this day."



**SEE WHAT IT'S LIKE  
TO DRIVE A WINNER.**

Matt: "But the Camaro was not a Corvair replacement, was it?"

Jordan: "No, Corvair was replaced by the Chevrolet Vega."

Matt: "The Vega reminds me of the Edsel. What a disaster."

Jordan: "I think Vega was a great concept but had a lot of new technology that was never fully tested. GM rushed it to market."

Matt: "How long was Vega in production?"

Jordan: "1970-1977. Problems with the early models doomed the car and production was minimal in the later years."

Matt: "So GM enters the 1980's with two recent small car failures – Corvair and Vega. At the same time the public has experienced gas rationing and higher gas prices, both of which are pushing sales toward smaller cars...away from GM's strength."

Jordan: "Not a good scene."

Matt: "Did GM then just give up on small cars?"

Jordan: "No. There was another major program to introduce well-engineered smaller, more fuel-efficient compact cars. All divisions except Cadillac had a somewhat larger model that would be replaced. Inside GM these were known as 'X-cars' because they were built on what was labeled the 'X' platform. Auto speak."



Matt: "These models were introduced when?"

Jordan: "1979 as 1980 models."

Matt: "How well did these cars sell?"

Jordan: "Extraordinarily well compared to the Corvair and the Vega. In fact, the Buick X-car, Skylark, outsold the Chevrolet model every now and then."

Matt: "Did something happen? Why did GM phase them out?"

Jordan: "More quality issues...lots of recalls."

Matt: "More egg on GM's face for small cars."

Jordan: "The X-cars were dropped after six years and yet another series of smaller models was introduced. But sales never really took off."

Matt: "So let me go back. At the beginning of the 1980's GM has suffered two embarrassments with small cars. Then introduces another new series of smaller cars, which sells well initially. What about the other car lines? It's not as if everyone is buying small cars then."

Jordan: "You're right. A lot of people were buying middle-size and larger cars. But GM models were getting long in the tooth and needed updating. In some cases massive changes that would be very expensive."

Matt: "Weren't there some mandated fuel economy standards also?"

Jordan: "Yes. The Corporate Average Fuel Economy standards, aka CAFÉ, passed Congress after the original oil embargo. And GM needed to update the larger, heavier models to help meet CAFÉ standards."

Matt: "What about image of the GM brands?"



Jordan: "My view is the brand images had some tarnish but good new product would begin to restore the image."

Matt: "The brands are tarnished, need some polish. What happens next?"

Jordan: "What happens next is a break, then we will talk more about GM."

## #48 SQUEAKY REIGNS AND IT STARTS TO RAIN

*(Scene: Jordan's office with Matt, reporter for major publication. Matt has been asked by POTUS' office to help write the story of GM. POTUS wants to use the information as part of a plan to help rebuild US manufacturing. Entries about GM begin #41.)*

Matt: "Jordan, my coffee is refilled. Here's my understanding of GM's situation in the early 1980's. GM's struggling a bit but still the big kahuna. By the way, what was GM's market share at the time?"

Jordan: "About 45%, almost 5 of every 10 cars were still GM brands."



Matt: "That's a huge number. What about management? Was Mr. Murphy still chairman?"

Jordan: "No, Murphy retired and the Board had named Roger Smith chairman."

Matt: "Was he a clone of Murphy?"

Jordan: (spitting out his coffee) "My apologies for my reaction. Roger Smith was the complete opposite of Tom Murphy – 180 degrees apart."



Matt: "Different in what way? Appearance? Approach to business? The way he worked with people?"

Jordan: "Yes, yes and yes. Let's start with appearance. Murphy could have been from Hollywood central casting, looking very much the part of CEO. Smith looked more like Mickey Rooney – short, a bit pudgy and reddish hair. Plus his voice was high pitched. In some management circles, he was known as 'Squeaky.'"



Matt: "You think his appearance made a difference?"

Jordan: "Speculation on my part but Smith seemed to be conscious of his appearance. To compensate for physical shortcomings, he tried to intimidate people – and I'd say effectively."

Matt: "Does Squeaky...I mean Roger Smith...create a team spirit? Some leaders can be intimidating and still build a good team and gain respect."

Jordan: "Smith had a tight circle, small cadre of henchmen. If you were not part of the group, you had no say."

Matt: "What else happened?"

Jordan: "Squeaky changed the focus of GM from selling cars and trucks to maximizing profits."

Matt: "Isn't maximizing profits what the CEO is supposed to do?"

Jordan: "Earnings come from sales. As simple as that is, Squeaky never seemed to understand that concept."

Matt: "No sales. No earnings."

Jordan: "Think of it this way. Take your house. You can increase your spendable income by deferring maintenance on the house."

Matt: "But fairly quickly the house starts to deteriorate and eventually falls apart. And then is worth nothing."



Jordan: "That's exactly what Smith did to GM. He spent corporate earnings on other projects and did not address maintenance on the house."

Matt: "Give me some examples."

Jordan: "The one take makes me nauseous to this day is Saturn."

Matt: "You don't think starting Saturn was a good idea?"

Jordan: "Possibly one of the dumbest ideas in GM history. To fund Saturn, Smith withheld funds for product development from the other divisions."

Matt: "And you said that those divisions, while a bit tarnished, could have recovered with some new product."

Every brand...and I mean every brand, no matter the company...has a period when the product and sales are a bit out of synch with market demand."

Matt: "But you're saying don't kill the brand just because of a solvable problem...right?"

Jordan: "Squeaky starting Saturn is like putting a very expensive addition on the house. Then neglecting to maintain the main house."

Matt: "Jordan – is the story becoming too complicated? POTUS wants to use lessons from GM to help formulate a manufacturing policy. I'm concerned we are getting off track."

Jordan: "I understand the question and the concern. The lesson for us is to stay focused on what GM did best, how did it fix problems rather than ignore problems and how did it avoid complicated solutions. Then we can talk about what happened when GM ignored the basics."

Matt: "You think GM did not follow the lesson?"

Jordan: "They missed all three. And then paid the price...bankruptcy."

Matt: "OK they missed but the story needs more specifics. So far you've mentioned Saturn and the negative effect of the other brands. That needs more explanation. And what else?"

Jordan: "Second major issue is reorganizing the company in a way that destroyed the internal brand identity and created chaos. Third is buying non-core businesses, which depleted capital further."

Matt: "Such as...?"

Jordan: "Such as buying Hughes Aircraft and EDS...Electronic Data Systems. When your core business needs fixing, what is the logic of buying businesses that do not generate revenue?"

Matt: "Was there surplus cash?"

Jordan: "No. The company was short of cash. The GM money machine – the car divisions – needed some cash to freshen the product."

Matt: "And the cash gets spent on Saturn, Hughes and EDS."

Jordan: "You got the picture."

Matt: "I have a question for you I have never heard addressed."



Jordan: "Fire away."

Matt: "Do you think Squeaky...pardon me, Roger Smith...envisioned himself as the second coming of Alfred P. Sloan?"

Jordan: "Funny you ask that. I've had the same thought for a long time. Smith started at GM when Sloan was still involved, albeit later in his career."

Matt: "So you think the question is not whacko."

Jordan: "Given Smith's actions, I sincerely believe he thought he could become Alfred P. Sloan II, as it were. Look at the decisions."



Matt: "Keep going."

Jordan: "He starts Saturn. And yes, we need to spend more time talking about why it was such a debacle. Then buys EDS and Hughes. Then he reorganizes the company away from the Sloan model. Then stresses earnings per share over market share. Finally, he targets the UAW, especially in Flint."

Matt: "But all those actions seem contrary to Sloan's model. What Sloan did was to build GM."



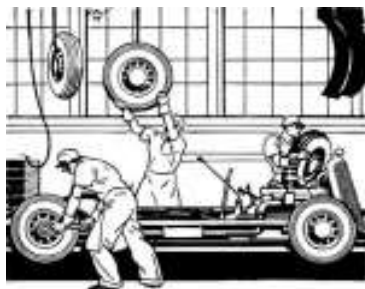
Jordan: "I agree. Smith's decisions we have talked about...and there are many more...seem to be the exact opposite of the model used to build the GM economic engine."

Matt: "Ironically, his decisions seem to be aimed at destroying GM, not rebuilding it."

Jordan: "I know. Head scratching, isn't it. Matt, I need a short break. Talking about this is painful."

## #49 MORE RAIN UNDER ROGER'S REIGN

Matt: "I don't mean to beat up on Roger Smith but most of his decision seemed to erode GM's strength."



Jordan: "You want an interesting review of GM in the 1980's? Go watch the movie '**Roger and Me.**'"

Matt: "Michael Moore made that didn't he?"

Jordan: "Yes. I think it was his first major movie."

Matt: "How much of the movie is true and how much is Moore taking some Hollywood liberties?"



Jordan: "Far more truth than fiction. But the important point....and what you and I have been talking about....is how the personality of the CEO affects the behavior of the corporation."

Matt: "So you think the movie is more about Squeaky's personality than GM. I really should not call him Squeaky that but the more we talk the more appropriate it seems."

Jordan: "Yes, it was almost all about Squeaky ...and the name is appropriate."

Matt: "I'll download the movie. Now tell me some more decisions you think are important. We still need to talk organizational structure."



Jordan: "One decision that rarely gets discussed is academic. Years ago and I think late teens early 1920's, GM bought a university in Flint, MI that was designed to help train auto executives. GM renamed it General Motors Institute of Technology or GMI."

Matt: "GMI was a fully accredited university?"

Jordan: "All but the football team. Hard to get fans for football when you have University of Michigan and Michigan State so close. GMI offered degrees in engineering and business administration...and I'm not sure what else. But the main attraction was GMI co-op program."

Matt: "Students combined school and work?"

Jordan: "School for 12 weeks, then work for 12 weeks, then back to school. Took five years to graduate."

Matt: "Students worked mostly where...GM?"

Jordan: "Yes, but other companies sponsored students also."

Matt: "During the work sessions, did students work in the same department each time?"



Jordan: "No, and that was a major benefit of the program. Students were assigned to work in virtually every section of the business – from the assembly line to the headquarters office."

Matt: "Were classes all about GM?"

Jordan: "GM was often used as an example but students got a very well-rounded education."

Matt: "How much was tuition?"

Jordan: "Students made enough money during the work sessions to pay for tuition and cover living expenses."

Matt: "So families with limited income could send children to college at no cost. And, students were hired full-time at graduation."



Jordan: "And one other major benefit. Matt, who are some of your closest friends?"

Matt: "People from my college days."

Jordan: "Mine, too. And the same with GMI students. GMI students ended up knowing lots of people in GM – friends and people they worked for. I ended up as thesis advisor to 8-9 students, all of whom I got to know reasonably well. GMI students had a great network."

Matt: "What about so-called 'group think,' where everyone starts to think alike. If everyone has the same educational background that can hurt creativity and innovation."

Jordan: "I'm not sure what percent of GM middle and senior executives were GMI students. Maybe 15-20%."

Matt: "So you don't believe 'group think' was a problem. Then why did GM quit supporting GMI?"

Jordan: "To save money."

Matt: "How much money?"

Jordan: "Believe it or not, I've heard is less than \$10 million per year."

Matt: "You have to be kidding. \$10 million is like pennies to GM. \$10 mil is not even a rounding error."

Jordan: "I know. But Smith dropped support. I also think GMI got caught up in Smith's revenge against



the city of Flint.”

Matt: "Revenge against Flint? You mean Flint, MI.”

Jordan: "Yes. We'll talk about that if we have time.”

Matt: "Did GMI close after GM dropped support?”

Jordan: "No. It regrouped and changed its name to **Kettering University**...and is doing quite well, thank you.”

Matt: "Is that the same Kettering as Sloan-Kettering Hospital in New York.”

Jordan: "One in the same. And a bit of trivia. You know what Kettering is famous for?”

Matt: "Haven't a clue.”

Jordan: "Next time you start your car, thank Mr. Kettering, aka Boss Kettering. Among his many inventions was the electric starter. Until then you could only start your car with a hand crank.”

Matt: "How do you know all this stuff, anyway?”

Jordan: "Who knows?”

Matt: "So Squeaky closes GMI and GM loses the benefit of management having a great network. But was the network really valuable? You didn't go to GMI and you had a wide network.”

Jordan: "One more story about the network and then we'll move on.”

Matt: "Hit it.”

Jordan: "I'm now at Buick. A guy in one of the departments I manage is a GMI grad. Call him Bagel Bill – not his real name, of course.”



Matt: "So what does Bagel Bill do?”

Jordan: "His official title is something like Sales-Engineering liaison. I cannot remember exactly.”

Matt: "What's that mean?”

Jordan: "All I know if there is a problem in engineering or manufacturing affecting Buick's ability to sell cars, Bagel Bill makes a few phone calls, has coffee with some guys and the problem gets fixed.”

Matt: "Using his network of old GMI buddies.”

Jordan: "Exactly. What I did not appreciate fully was how many problems he prevented.”

Matt: "What do you mean?”

Jordan: "I think it was Einstein who said 'Intellectuals solve problems. Geniuses prevent problems.' If that's true, old Bagel Bill was a genius.”

Matt: "Did GM really understand the value of guys like that? Or, was Bagel Bill just another employee?”

Jordan: "At least under Squeaky, GM never really understood how valuable these guys were.”

Matt: "Give me an example.”

Jordan: "Bagel Bill was about 55 years old when I started at Buick. Because of his time at GMI he was technically eligible for retirement. So, when GM decided to cut back on employees, I was directed to



offer him a retirement package."

Matt: "Did he accept it?"

Jordan: "No, thankfully."

Matt: "So, what's the story?"

Jordan: "A year or so later, GM goes on another program to retire older employees. And this time Bagel Bill took the package."

Matt: "Then what?"

Jordan: "Then what is when all hell broke loose. You know the story of 'The Little Dutch Boy,' who held back a flood by putting his finger in the dyke?"

Matt: "Of course."



Jordan: "Well, Bagel Bill retiring was like the kid pulling his finger out of the dyke. We started to have problems with engineering and manufacturing that I never knew existed."

Matt: "So Bagel Bill had taken care of problems ...actually probably prevented problems...using his old buddy network from GMI."

Jordan: "Stopping support for GMI also resulted in more employees not understanding how an auto company really works."

Matt: "You were not GMI and you managed."

Jordan: "True, but I had a lot of help from guys who had been around a long time, including a bunch of GMI grads."

Matt: "What I just heard from you is a Smith created a double 'brain-drain' program. Retire the old guys who have vast institutional knowledge. Eliminate hiring new employees who have been trained in the auto business."

Jordan: "You got it. Not very smart, huh? Plus, GM then obligates itself to a lifetime pension for the same people who could have been contributing to the company."

Matt: "By the way, what did Bagel Bill do?"

Jordan: "Went to work for a GM supplier. So now GM is paying his pension and effectively paying again through the supplier."

Matt: "And Squeaky was supposed to be a financial genius? If he did not understand how this was a lose-lose for GM, what did he understand?"

Jordan: "I didn't know then and I don't know now."

Matt: "Let's try to wrap up the Squeaky end. We need to close out the story."



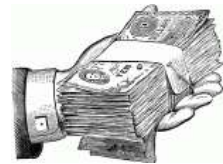
Jordan: "I hear you but we might need to add a session or two. I admit until we started to talk about the Smith era, I did not appreciate fully how bad his decisions were. It's embarrassing."

Matt: "OK, a couple more about Squeaky, then we have to move on. I'm interested in learning more about EDS and Ross Perot. You also need to more about Saturn."

Jordan: "Let's talk EDS and Perot. Like many companies in the 1980's, GM was migrating to widespread electronic data bases. Also, like many companies, the data bases were not always integrated. Improvements were needed."

Matt: "Do you agree having an EDS-like company help with the integration was a valid idea?"

Jordan: "Yes. But GM had a large IT staff. It's not as if GM had been operating using quill pen and papyrus paper. The IT staff could have used some outside guidance but GM did not...repeat not need to buy EDS."



Matt: "What was the integration like? Did EDS flow seamlessly into GM?"

Jordan: "Horrible would be an understatement. The EDS culture reflected the cowboy personality of Ross Perot. We know best. Get out of my way."

Matt: "But EDS had been very successful."



Jordan: "True. But I am going to repeat what I've heard from every person who gets involved in automotive after spending time in another industry."

Matt: "And that is..."

Jordan: "Within the first three weeks of getting involved, the person says, 'Gee, automotive is a lot more complicated than I realized.' And usually there are a couple of expletives in the sentence."

Matt: "Did EDS experience the same thing?"

Jordan: "Yes, but most EDS staffers were reluctant to admit it, maybe afraid to admit it."

Matt: "What about Perot?"

Jordan: "He's on the Board of Directors and GM's largest single shareholder."

Matt: "Was he as outspoken on the Board as he was in public about other issues?"

Jordan: "Possibly more so."

Matt: "How did Squeaky react?"

Jordan: "The way Squeaky always reacted to someone challenging him. Except with Perot, he couldn't fire him so Squeaky bought him out to get him off the Board."

Matt: "How much did GM pay Perot to go away?"



Jordan: "\$700 million in 1986."

Matt: "\$700 million. Wow. That's about \$1.5 billion in today's dollars."

Jordan: "Plus, now GM owns EDS that no one inside GM wants, other than maybe Squeaky. And EDS employees are no longer lead by Ross

Perot."

Matt: "Sounds like a disaster."

Jordan: "Worse. The money used to buy EDS and then take out Perot...all that money was diverted from product programs for the car divisions."

Matt: "As you said earlier, the divisions were a bit tarnished but could have been polished up with some new product. Instead, the money is spent on buying EDS and then paying again to get Perot off the Board."

Jordan: "Ugly, huh? Probably qualifies as 'stupid is as stupid does.'"

Matt: "What about Saturn."

Jordan: "Saturn drained even more cash. We'll do Saturn and then end up with the reorganization. But let's take a break."

## #50 GM SATURN: WHERE WAS THE PROCTOLOGIST?

*(Scene: Jordan's office with Matt, reporter for major publication. Matt has been asked by POTUS' office to help write the story of GM. POTUS wants to use the information as part of a plan to help rebuild US manufacturing.)*



Matt: "We need to talk more about Saturn. I know the program upsets you but I want your perspective."

Jordan: "Of all the programs and changes Roger Smith implemented, I think starting Saturn division was the worst."

Matt: "Why do you say that? Saturn seems like a good idea."

Jordan: "The concept of Saturn was OK. But concept and execution are entirely different."

Matt: "What do you think went wrong?"



Jordan: "Squeaky was adamant that Saturn become, in the words of the Hal Riney ad agency, 'A Different Kind of Car Company.'"

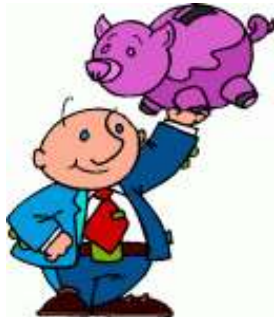
Matt: "Good idea. You think bad execution. Why?"

Jordan: "Because the Saturn team was given carte blanche to build a

new assembly plant, new foundry, new whatever they thought ...emphasize what they thought, not what made economic sense...would separate Saturn from the rest of GM."

Matt: "Do I detect a bit of jealousy? How was Saturn funded?"

Jordan: "Jealousy, maybe. Anger, definitely. Now we are getting at the heart of the problem -- funding.



GM profits were down because Squeaky and the gang ignored market share and kept thinking GM could save its way into prosperity."

Matt: "So profits are flat to down and in the meantime GM spent tons of cash to buy Hughes, EDS and then pay Ross Perot another \$700 million to get off the Board of Directors."

Jordan: "With the buying spree and payoff to Perot...plus keep in mind GM is still paying a dividend even though it needs cash...there is no money left in the piggy bank. Pardon me, no money except for Saturn."



Matt: "Then where did the money come from?"

Jordan: "Cutting product programs at the life blood of GM – the car divisions."

Matt: "You're kidding. Squeaky funds Saturn by not spending money to update product at Chevrolet, Olds, etc. From what you said GM makes money at the car divisions. What am I missing in Squeaky's logic?"

Jordan: "You are not missing anything other than a classic case of stupid is as stupid does. These kind of decisions show how little Squeaky and the gang knew about the car business. They were just moving numbers around on a worksheet with no real understanding of the implication."



Matt: "Where was there head during these decisions?"

Jordan: "In a place where only a proctologist could find it."

Matt: "Despite all this wasn't Saturn successful?"

Jordan: "Depends on how one defines success. Once Saturn finally got on the market, it did capture some buyers new to GM."

Matt: "What about profits?"

Jordan: "Oh, profits? You mean a division is supposed to make profits?"

Saturn costs were so high that it would probably never make money. If you took away all the development costs, Saturn might have made a little money in its best years. But not enough to pay for development and not enough to fund new product. It was a cash drain...a sinkhole."

Matt: "I'm stunned. In a way, GM starting Saturn is like cutting off your nose to spite your face."

Jordan: "If you had to pick a single event that put GM on a clear path to bankruptcy, it was the creation



of Saturn. The drain on the rest of the organization was so great that it effectively killed the company."

Matt: "Do you think other people feel that way?"

Jordan: "If they spent time thinking about what really happened and the effect on the divisions that were generating the profits, I think many people would reach the same conclusion."

Matt: "I can tell by the tone of your voice how frustrated you are."

Jordan: "When one guy and his henchmen basically kill an economic engine then I have a right to be angry. And so should everyone who was committed to making GM a success. It is truly maddening."

Matt: "Whew. The scope of what you're talking about is hard to comprehend."

Jordan: "I'll give you one more Squeaky proctology story and then we will move on."

Matt: "...and that is?"



Jordan: "About one of my favorite cars, the Buick Reatta."

Matt: "Wasn't Reatta a two-passenger, sorta luxury car? And it wasn't around very long. What's Squeaky have to do with the Reatta?"

Jordan: "Yes, it was a two-passenger car in what was labeled the 'near-luxury' segment. Why wasn't it around very long?"

Matt: "Squeaky? But what did he do?"

Jordan: "Squeaky doomed Reatta from the start, even before it was formally introduced. During development Buick conducted some very sophisticated market research about the price point. The research, some of which was conducted through MIT, indicated MSRP should be less than \$20,000. Remember this was the mid-1980's."

Matt: "Price sounds reasonable."

Jordan: "That's what we thought. At the time prices for all GM cars and trucks were reviewed by what I think was called the Price Review Group, or PRG."

Matt: "Part of Squeaky's reorganization plan?"

Jordan: "Yes. And guess who was chairman of the PRG?"

Matt: "Let me guess. Mmmm...Squeaky."

Jordan: "During our presentation about Reatta, Squeaky interrupts and states, 'Reatta price is not \$20,000 but \$25,000.' Next item."

Matt: "Any discussion?"

Jordan: "Squeaky the king had spoken and no one on the PRG was going to challenge him. They had seen what happened to others who challenged the king."

Matt: "How did the price affect sales?"

Jordan: "Reatta is a new entry into the two-passenger market with an MSRP 25% higher than all the research suggested. Many people who were interested in Reatta balked at the sticker price. As a result, sales never met expectations."

Matt: "Squeaky's pricing strategy seems just the opposite of how the other auto companies price cars."

Jordan: "I told you it was a Squeaky proctology decision. When Toyota introduced Lexus, they low-balled the price to generate interest and sales. Same strategy on Prius."

Matt: "But not GM...with Reatta and more recently with the Chevrolet Volt. Squeaky seems to have thought the model for pricing cars should parallel the model for pricing new electronics – like computers and phones. Price high initially and then decrease prices over time."

Jordan: "One key difference between cars and say computers. Cars have a residual value...used car value...that electronic items do not. That residual value...trade-in value...is very important to personal-use buyers and fleet buyers. Very few customers own a car for its entire life."

Matt: "Your Miata being an exception."

Jordan: "Yes but I knew that when I bought the Miata. For virtually all buyers, personal and fleet, there is an expected depreciation schedule."

Matt: "What happened?"

Jordan: "What happened with Reatta was the expected depreciation plus another 25% depreciation for the first owner. Fleets in particular were upset because costs for owning Reatta were higher than forecast."

Matt: "So the expected depreciation schedule is why auto companies maintain prices over time for older models rather than dropping prices like computers."

Jordan: "Matt, you now understand more about the car business than Squeaky and his gang ever did. I'm going to say it one more time, then let's break. After the break we will move into the post-Squeaky era at GM."

Matt: "Let me guess what you were going to say. Decisions by Squeaky and his gang were the primary cause of GM going bankrupt. And diverting funds to start Saturn were the single biggest cause."

Jordan: "You took the words out of my mouth."

## #51 THE ELECTRIC SPARK

*(Scene: Jordan's office with Matt, reporter for major publication. Matt asked by POTUS' office to help write the story of GM. POTUS wants to use the information as part of a plan to help rebuild US manufacturing.)*

Matt: "So the Squeaky reigns ends when, sometime in 1990."



Jordan: "Yes, ten years of proctology decisions. I will say the last major idea had merit."

Matt: "Really? What decision was that?"

Jordan: "At the Los Angeles Auto Show, early 1990, Squeaky announced GM would build a 2-passenger electric car."

Matt: "Was that the EV1?"

Jordan: "Yes, but the original name was 'Impact.' Great name for a car, huh? Impact."

Matt: "Whose idea was that?"

Jordan: "I don't know for sure but I should. Might have been Smith. Might have been someone else. But



Smith bought into the name."

Matt: "You ended up on that program, right?"

Jordan: "Yes, and I give Squeaky credit. The idea of GM taking the lead on electric vehicles was a good strategy, but..."

Matt: "...but what? Poor execution, again?"

Jordan: "Setting proper expectations is critical to any successful program. If you over-promise, then the program might be



labeled a failure even though it would have been considered successful if proper expectations had been set."

Matt: "You're saying too high of expectations can create the perception of failure."

Jordan: "Absolutely. And that was one of the problems with the electric vehicle program. Expectations far exceeded what was likely to happen. Yet, many aspects of the program were highly successful."

Matt: "You need to explain more. I need some reference points."

Jordan: "On the positive side, many electronics and features, even in today's cars, had their origin from the EV1 program. The program really helped change thinking about integrating electronics into vehicles."



Matt: "No one seems to know that."

Jordan: "You're right. That was a real positive that helped improve fuel economy on every new car and truck. Now, let's talk expectation. Impact...err EV1...was announced as a regular production model. Cars in the category need to sell a minimum 20-25,000 units per year to be considered even marginally successful."

Matt: "That seems like a reasonable number."



Jordan: "The major hurdle for EV1...aside from being electric, was a 2-passenger configuration."

Matt: "But you bought a Miata. Its 2-passenger."

Jordan: "I bought a Miata for me as a personal car. On occasion I have a passenger, usually to go get ice cream or something like that. I also bought a Miata because it goes vroom, vroom."

Matt: "And the Impact didn't go vroom, vroom."

Jordan: "You've driven an electric vehicle, haven't you? I know you driven a golf cart. The only noise is a little whine from the motor and the tires on the road."

Matt: "And guys with sporty cars want noise."

Jordan: "Beyond the vroom, vroom, 2-passenger cars have an inherent problem – storage space. Many people want a back seat, even if it is cramped. And with no back seat, a lot of people who liked the car and the idea of an electric vehicle just walked away because there was not enough room."

Matt: "I hear what you're saying but when you look on the road, seems well more than half the cars have just one person. Was there any research to support why people claimed they needed more space?"

Jordan: "Lots of research indicates people buy cars, and especially SUV's, for occasional, even rare use – one or two trips per year. 2-passenger cars are basically 1-person cars with room for a briefcase, backpack, golf clubs...and the occasional passenger."

Matt: "How can you get around that kind of behavior?"

Jordan: "You can't, really. We even considered allowing people to have access to a SUV for 1-2 weeks a year through AVIS. But people just don't want the inconvenience of picking up another vehicle...even if there is no charge."

Matt: "Seems like more of an excuse."

Jordan: "I agree. But let me give you an example where the need for room is real. We're at a research clinic in Phoenix. A lady drives the Impact and says to me, 'I really love the car and I would buy all electric if...'"

Matt: "And the 'if' was?"



Jordan: "If it had a back seat. I drop my two kids off at school in the morning and I have a briefcase and purse. Even a small back seat would be OK. But I can't buy a 2-passenger."

Matt: "So now you're discovering the sales potential might be less than the 20-25,000 necessary for a regular production model. And the problem with proper expectations."

Jordan: "The research suggested no more than 5,000 units per year and less initially. And the 5,000 assumed a very favorable MSRP."



Matt: "So now you have a piece of the pie but not the whole pie. Knowing the problems with a 2-passenger, why not add a back seat? The car was still a prototype, right? You had time to make a change."

Jordan: "Funny you mention adding a back seat. I said the same thing in a staff meeting right after the research in Phoenix."

Matt: "And what was the reaction?"

Jordan: "This is close to the quote, 'We can't change the design because Roger Smith said it would be 2-passenger.'"

Matt: "Was Smith still chairman of the Board?"

Jordan: "No. He was a board member but not chairman. Yet, managers more senior than I were still so intimidated they would not go forward to fix an obvious problem."

Matt: "Did the second seat idea have support among other staff members?"

Jordan: "The manufacturing manager accused me of trying to sabotage the program because I would not support sales volume of 20-25,000 units for the existing design."

Matt: "He deserved the one-finger salute."

Jordan: "That's what he got."

Matt: "A classic case of shooting the messenger."

Jordan: "That's a lesson we need to make sure is in the write-up for POTUS. Listen to your customers and your staff, especially when you don't agree."

Matt: "So noted. But despite the limited sales forecast, wasn't support for the EV1 concept among the public pretty good?"

Jordan: "The fact that GM was taking the lead on introducing a viable electric vehicle was great for its image."

Matt: "GM sure needed a boost following Squeaky. It needs even more of a boost now. But how do you know it was good for GM's image?"

Jordan: "We hired a company to measure coverage about GM -- articles in newspapers, magazines, TV coverage. Remember at the time the internet was in its infancy."

Matt: "Results were what?"

Jordan: "The EV1 group generated more positive publicity about GM than the rest of the company combined. And that lasted for probably three years."



Matt: "Promotion budget must have been pretty healthy."

Jordan: "Oh contraire, Matt. The dollars we spent were a fraction -- and I mean a tiny fraction -- of the marketing budgets for the car divisions. I think our total marketing budget was about 1% of what Buick spent and Buick's budget was about 20% of GM's marketing budget. We're talking peanuts."

Matt: "That's impressive. All the positive coverage must have generated widespread support inside GM."

Jordan: "I wish that were the case but just the opposite happened. There was a lot of opposition."

Matt: "Another bummer story coming up. GM demonstrates how to grab defeat from the jaws of victory."

Jordan: "That's what happens with back-asswards thinking. I'll take part of the blame for not generating more support inside the Company. And I will explain what went wrong at my end...after we take a break."

## #52 VALUE OF GM EV1: HOLISTIC COW

Matt: "I'm really surprised there was not more support inside GM for the EV1 (electric vehicle). I mean, people must have been aware of all the positive media coverage."



Jordan: "The lack of support within GM was virtually everywhere."

Matt: "I really don't understand. Why?"

Jordan: "The problem was two-fold. One, the car divisions -- Chevrolet, Buick, etc. -- had experienced 10 years of Roger Smith diverting funds that should have been used for product programs."

Matt: "Funds for buying Hughes, buying EDS, buying out Ross Perot for \$700, and then starting Saturn division. So the EV1 comes along and all the divisions think more product development dollars are being diverted to some low volume, goofy-looking electric car. I can understand why they did not support it."

Jordan: "The divisions might have supported it if they understood the potential value."

Matt: "What do you mean? It was an electric vehicle. What value is an EV to say Buick or Cadillac?"

Jordan: "EV1 qualified as what one could call a 'halo' car. A halo car helps improve the image for the company."

Matt: "Which in turn increases the number of people who might consider buying a car or truck from the company, not just the halo car."

Jordan: "Grocery stores have specials to get people in the door. The halo cars do the same for auto dealerships. Corvette is a halo car for Chevrolet. Viper for Chrysler. You get the picture."

Matt: "But the 'halo' message never got across...at least inside the company."

Jordan: "Here's where I need to take some blame. The EV1 marketing effort focused almost 100% outside GM. We assumed...erroneously...that people inside the company understood the value of EV1."

Matt: "How widespread was the misunderstanding, even resistance, inside GM? The divisions, yes. What about the staff?"

Jordan: "Funny story. More tragic than funny but I think representative of the problem."



Matt: "Ok, what happened?"

Jordan: "The EV1 group had its own government relations staff, which reported to me."

Matt: "Was that unusual?"

Jordan: "Within GM, yes. We were the only group with a separate government relations staff. All other government relations efforts had to be channeled through corporate staff."

Matt: "Mmm, interesting. A bit of friction there?"

Jordan: "Some but I think the real problem was a perceived difference in function."

Matt: "Not sure I understand."

Jordan: "An example. I'm having lunch one day with the chief environmental lobbyist for GM – just the two of us. He leans across the table and says, 'You are my worst enemy.'"

Matt: "An odd statement. What did he mean?"

Jordan: "That's what I wanted to know. So I asked why."

Matt: "And?"

Jordan: "He said his primary task was to convince federal and state legislators to overturn tailpipe emissions laws that were too strict for the auto companies to meet. And since I was out there promoting an electric vehicle with no tailpipe emissions. My efforts were proving him wrong."

Matt: "Did he want you to stop?"

Jordan: "Yes. Then I asked who was signing his paycheck. I told him our group worked directly for the

chairman and until I was told to do otherwise, I was going to promote the zero emission EV1."

Matt: "Now I see what you mean about internal misunderstanding and friction."



Jordan: "The real resistance was at the operating divisions."

Matt: "They were still smarting over the diversion of funds."

Jordan: "I can't blame the divisions for lack of support. Product program funds had been diverted for the Squeaky's boondoggles."

Matt, at the same time the CEO says the company policy is to increase earnings and not be concerned about market share."

Matt: "And for 75 years the divisions and dealers have focused on market share. Isn't achieving certain market share a key part of the

dealer franchise agreement?"

Jordan: "It was then and I assume so now. "



Matt: "No wonder the divisions were in a sour mood about EV1. What about the US economy? Wasn't it starting to slow down about the same time?"

Jordan: "Yes, for lots of reasons. Plus the savings and loan scandal disrupted the financial markets for a while."

Matt: "Sounds like the perfect storm."

Jordan: "It was not the same storm as in 2008 but things were not good."

Matt: "You said part of the problem was not educating the staff inside GM on the value of the EV1. Tell me more of what you mean."

Jordan: "What the EV1 group did not promote was the spin-off benefits."

Matt: "Such as?"

Jordan: "While the EV1 was in development, engineers at Delco were taking components and testing in gasoline cars."

Matt: "You mean integrating some of the electronic features from EV1?"

Jordan: "Exactly."

Matt: "Who knew about such programs? I've never heard anything about it."

Jordan: "I don't think many people knew, even many GM executives."

Matt: "But why? Seems like a good idea."

Jordan: "Part of the problem was GM and the other auto companies were suing the state of California over laws requiring zero-emissions vehicles, aka ZEV's. One of GM's arguments was cost for developing EV's was too high."

Matt: "The argument goes away if development costs are spread over say 4-5 million cars and trucks

versus say 25,000 EV's."

Jordan: "Absolutely. Take say \$250 million development costs for the EV1. If you spread out development costs over GM production for 5 years – about 25,000,000 cars and trucks – the cost is \$10 per car. The same \$250 million over 5 years of EV1 sales – remember the forecast was about 5,000 per



year – development cost comes to \$10,000 per car."

Matt: "So GM knows it will lose its argument for the lawsuit if it promotes using EV1 components in all its cars and trucks."

Jordan: "Another case of back-asswards thinking. Why not promote the value of the EV1 as helping all cars and trucks?"

Matt: "Senior GM management apparently did not understand the value of what it had developed."

Jordan: "Unfortunately, EV1 suffered from the same problem as the boy who cried wolf' too often. When the real wolf came no one believed him."



Matt: "No one believed him but it was true. But wasn't Bob Stempel chairman by now?"

Jordan: "Yes, but he was fighting the financial staff who looked only at the bottom line. Remember the financial guys were part of Squeaky's cadre, and

not loyal to Stempel. In fact, many in the EV1 group considered the CFO as a spy."

Matt: "Not a good scene. Let me summarize. What I want to do is translate the events into a lesson POTUS can use to help explain how to rebuild US manufacturing."

Jordan: "For me the simplest lesson is educating people inside the company is as important...maybe more important...than educating people outside the company."

Matt: "Another lesson is to look beyond the obvious. Making lemonade out of lemons. GM kept claiming costs for the EV1 were excessive but in fact, could have been spread over many carlines."

Jordan: "If you think about the cost of the EV1 – use \$250 million – and take a look at the positive media coverage that was generated about GM, the development cost becomes inexpensive advertising."

Matt: "But the financial group would not recognize the value of positive image?"

Jordan: "Never. To them EV1 was only a cost program. Virtually none of the financial guys had any experience in marketing."

Matt: "So the lesson is to implement a more holistic approach to value creation and not just look at cost."

Jordan: "Matt, great way to end this session."



## #53 GM LETS THE BATTERIES DRAIN ON EV1

*Scene: Jordan's office with Matt, reporter for major publication. Matt has been asked by POTUS' office to help write the story of GM. POTUS wants to use the information as part of a plan to help rebuild US manufacturing. Entries about GM begin #41.*

Matt: "I've been thinking about the last session. GM was generating a lot of positive media coverage around EV1 (electric vehicle). But support for the program internally was weak so GM pulled the plug, as it were."



Jordan: "I would call it more like letting the batteries drain. GM eventually introduced the EV1 but the program was effectively cancelled before it was ever introduced."

Matt: "So by pulling the plug on EV1 GM managed to take all the positive publicity generated and turn it into negative publicity."

Jordan: "Probably more negative publicity generated than positive...so GM ends up losing on what was developing into a major win for GM. Another case of GM grabbing defeat from the jaws of victory."



Matt: "Wasn't there a movie made about GM killing the EV1?"

Jordan: "Yes, a so-called documentary titled 'Who Killed the Electric Car.'"

Matt: "You were in the movie if I'm not mistaken."

Jordan: "Yes, my one and only...at least I hope only...feature film."

Matt: "You said 'so-called' documentary.' Why the label?"

Jordan: "I think the producer left out key points in the film. Look, I understand all films take some license. Films need to tell a story."

Matt: "But you think the whole story wasn't told?"

Jordan: "The movie claimed, or at least implied, there was a conspiracy to kill the electric car. I laughed at that idea. We were all too naïve...I sometimes say not smart enough...to have a conspiracy. The EV1 died because of some bad decisions, not because of some conspiracy."

Matt: "What about GM crushing all the EV1's? Why?"

Jordan: "This is my frustration with the movie. Key points were left out. In fact, I agree that GM should have crushed the cars."

Matt: "Huh? Seems like convoluted thinking on your part. You are frustrated that GM killed the program but agree they should have crushed the cars. Why?"



Jordan: "GM made two big mistakes when they crushed the cars. One was they never explained why. Second was they crushed the cars too soon. GM management never understood or appreciated the value of all the positive media coverage the EV1 continued to generate."

Matt: "You're right, I've never heard why the cars were crushed. All I know is the cars, other than a few, are long gone. What's the reason?"



Jordan: "Remember GM never sold the EV1 to anyone. All cars were leased."

Matt: "Why not sell them?"

Jordan: "Two reasons. Leasing avoids the battle with the GM financial staff over what the MSRP would be. Financial guys wanted to recover costs as quickly as possible and given the low volume, MSRP would have been outrageously high."

Matt: "I know the timeframes are different but Tesla has a high MSRP and sells quite a few cars."

Jordan: "You're right. And GM might have sold as many as Tesla. The more important reason GM leased the cars was associated with providing service. EV1 was plowing new ground. There were no other electric vehicles, no hybrids and very limited knowledge on how to provide service. Working on the EV1 battery pack was not like changing your car battery."

Matt: "You mean I could have gotten fried."

Jordan: "In a heartbeat, or lack of a heartbeat. The battery pack had lots of volts and amps. But there was also a law...at least at the time...and I suspect something similar exists today. At the time if an auto company sold a car...transferred title...then it was obligated to provide service and parts for 10 years."

Matt: "So if I bought an EV1 in California, where it was introduced, and then moved to say Bangor, ME, GM would be obligated to provide service in Bangor for 10 more years? Even if the car was not sold in Maine?"

Jordan: "Essentially, yes."

Matt: "And lease cars have different rules?"

Jordan: "The person leasing the car never takes title and therefore does not trigger the service obligation. Plus, the lease can include restrictions on where the car can be driven, where serviced, etc.



As a lease car, the EV1 still belongs to GM. The person leasing is really like a long-term renter."

Matt: "Now I understand why GM leased the EV1's. I wish the movie would have explained that."

Jordan: "You and me both. Virtually no one is aware of the service requirement."

Matt: "But why didn't GM renew the lease instead of calling all EV1's back and then crushing them?"

Jordan: "Matt, quit thinking like a marketing guy and start thinking like a bean counter. As a bean counter, you would view the EV1 program as a cost center and not recognize any benefit. The faster the program was shut down, the faster the cost could be eliminated."

Matt: "I'm still having trouble understanding why the financial guys could not understand the value of EV1. It seems so obvious."

Jordan: "I hear you. Maybe a story will help you understand. The story I'm about to tell is rarely told. One reason is so few people were involved."

Matt: "I'm all ears."

Jordan: (cell phone rings) "Excuse me Matt. I need to take this call. We'll continue shortly."

## **#54 EV1 ENDS CEO'S TENURE. BEAN COUNTERS REIGN, AGAIN.**

*Scene: Jordan's office with Matt, reporter for major publication. Matt has been asked by POTUS' office to help write the story of GM. POTUS wants to use the information as part of a plan to help rebuild US manufacturing. Entries about GM begin #41.*

Matt: "As you were saying...something about a meeting."



Jordan: "The GM EV1 (electric vehicle) program was effectively dead before it was ever introduced. Like we talked about earlier, when Bob Stempel supported the program, it likely killed his career."

Matt: "I hear you say that but really?"

Jordan: "Here's the scene – GM Building, West Grand Boulevard, Detroit, small conference room, near executive offices and the Board room. Meeting starts at 3:00pm."

Matt: "Who was there?"

Jordan: "Four executives from the EV1 program and four from GM corporate – chairman, president, head of financial staff and an assistant."

Matt: "Man, heavy-weight group. What was the content?"

Jordan: "We presented a review of progress on EV1 – product update, interest among prospective

buyers, media coverage, cost, etc. A bit broader than the typical product program update."

Matt: "What was the reaction?"

Jordan: "The behavior of the individuals was the most telling. Stempel, who was a strong supporter of the program..."

Matt: "...He was still chairman, right?"

Jordan: "Yes. Stempel took notes during the meeting and asked a number of questions. Jack Smith, then GM's president, sat with his arms folded and took not a single note."

Matt: "What a contrast. Wasn't Jack Smith really a financial guy?"

Jordan: "Yes, virtually all of Jack's career leaned toward the financial side. No one ever called him a car guy...at least that I heard."

Matt: "Then what happened?"

Jordan: "During the meeting Jack would occasionally glance at his watch. Then at precisely 5:00pm, Jack



stands up, turns to Stempel, who is to his right, and says, 'Bob, you cannot afford the program.' Then walks out."

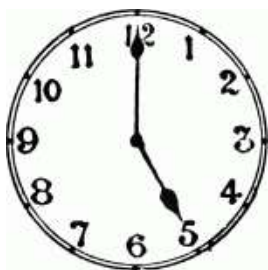
Matt: "What happened at the rest of the meeting?"

Jordan: "To tell you the truth I do not remember. Smith's remark and then leaving the meeting effectively ended it."

Matt: "Quite a scene. By the way, is Jack Smith related to

Squeaky...I mean Roger Smith?"

Jordan: "No relation to my knowledge."



Matt: "So Jack Smith says the EV1 program is too costly. How does Stempel counter the argument and keep the program alive? After all he is chairman."

Jordan: "The short story is...he doesn't. Within a few weeks **Stempel resigns as chairman** and Jack Smith takes over as CEO. My version of events is slightly different than the official story."

Matt: "Different in what way?"

Jordan: "I believe that Jack Smith instigated a palace coup to throw out Stempel."

Matt: "Why so?"

Jordan: "The Board of Directors was still packed with appointments from Roger Smith's tenure. These were guys who supported Smith's idea that earnings were more important than market share. Under Stempel, earnings started to fall, but through no fault of his."

Matt: "It was on his watch."

Jordan: "Matt, Matt, you know better than to say that. Earnings during Stempel's time suffered from

some of the shenanigans pulled under Squeaky's reign. The poor economy just made earnings look worse. Truth be told, GM was probably technically bankrupt at the time."

Matt: "Stempel gets caught in a vortex."

Jordan: "My view is Jack Smith could see the problems coming. Rather than have the problems on his watch, he supported...or didn't resist...putting Stempel in as chairman following Squeaky. Stempel was set up as the fall guy."

Matt: "Really?"

Jordan: "Think about this. If you're Jack Smith...or Roger Smith, who is still on the Board...you can state that Stempel's support of the EV1 program when the company was so short of cash was proof that he did not understand how to run the company. Therefore a change at the top was needed."

Matt: "I recall there was an issue about Stempel's health."

Jordan: "He did not look good at the meeting. I rarely talk about business issues with wife but I did mention to her how he did not look well."

Matt: "How serious was the problem?"

Jordan: "He ended up with a stent as I recall. But Bob was very active for many years after the procedure. I think any concern about his health was a smoke screen."

Matt: "OK, so Stempel is out and is replaced as CEO by Jack Smith. Based on what you've said, Jack is more of a bean counter than product guy. Then what happens?"

Jordan: "Soon thereafter, the GM Board of Directors effectively kills the EV1 program. And guess what date?"



Matt: "I have no idea."

Jordan: "December 7."

Matt: "You are kidding, right? How ironic. GM has a car that creates all kinds of interest and improves GM's image. GM could capitalize on the improved image and begin to counter losses in market share to imports, especially Japanese imports. And then what does the Board do? Kill the EV1? And on what day?"

December 7."

Jordan: "Hollywood script material, huh?"

Matt: "Better than Hollywood. True back asswards thinking. Actually, maybe no thinking by the Board."

Jordan: "Let's get another cup of coffee."

Matt: "How about a glass of wine, instead. I'm still shaking my head."

## #55 WRAP-UP OF THE GM STORY...FOR NOW

*Scene: Jordan's office with Matt, reporter for major publication. Matt has been asked by POTUS' office to help write the story of GM. POTUS wants to use the information as part of a plan to help rebuild US manufacturing. Entries about GM begin #41.*



Jordan: "Matt, we've covered a lot of ground about GM. Any thoughts on what else about GM we should cover for POTUS' project? There's 10+ years left before GM files bankruptcy."

Matt: "From what I've heard from you, the GM ship really started to take on water during Roger Smith's tenure. The EV1 (electric vehicle) could have helped plug the leak but EV1 was thrown overboard."

Jordan: "And the situation continued to

get worse."



Matt: "From what I know, seems like GM continued to wander around under Jack Smith and who followed him...Rick Wagoner?"



Jordan: "You are spot on. Believe it or not, instead of GM trying to fix the car divisions, GM bought other car companies, probably in

worse shape than GM."

Matt: "What did they buy?"

Jordan: "SAAB and Hummer. And then made an alliance with Fiat. And that was Fiat pre-Sergio Marchionne. At the time Fiat was anything but a top-line European car manufacturer."



Matt: "So more cash out the door. What on earth did anyone see in SAAB?"

Jordan: "SAAB is...or was...an interesting car with a group of buyers who would not normally consider GM products. But the SAAB buyers were quirky and more attracted to the quirkiness of SAAB."

Matt: "So if GM tries to integrate SAAB into the rest of the company, the quirks go away and SAAB becomes...something other than SAAB. If they do not integrate it, then what's the benefit of buying SAAB? I'm confused."

Jordan: "You're not the only one. Another GM boondoggle was buying Hummer. As you know, Hummer was really a military vehicle...more like an old-style Jeep on steroids."

Matt: "Who bought Hummers? How many Arnold Schwarzenegger's are there?"

Jordan: "Matt, quit being so perceptive. There weren't many Schwarzenegger's out there. GM eventually came out with a smaller version – still large but not gigantic. But GM also had SUV's from Chevrolet, GMC and even Buick."

Matt: "Seems as if GM kept adding new mouths to feed for product updates. And that is expensive."



Putting more people at the dinner table with less money in the bank to buy food is not a good formula."

Jordan: "Now think about GM's alliance with Fiat. Talk about mouths to feed. Fiat was a very large family...that was very hungry."

Matt: "How did the Fiat alliance work out?"

Jordan: "It didn't. I think GM had to pay about \$2 billion...yes one billion plus one billion...to get out of it."

Matt: "What the heck were they thinking?"

Jordan: "I don't know exactly but I do know this. A lot of financial guys measure transactions at the margin."

Matt: "Not sure what you mean."

Jordan: "The question becomes, 'What is the incremental cost in terms of cash?' Using that approach there is little, if any recognition to the long-term cost...and impact on such factors as manpower needs,



corporate image, time available for decisions, distribution, and a bunch of other stuff."

Matt: "Interesting that all the deals beginning with Roger Smith and thereafter – EDS, Hughes, Saturn, EV1, SAAB, Hummer, Fiat...and who knows what else – are all dead. And all died relatively quick deaths."

Jordan: "Some were spun off but you're right, most died relatively quickly."

Matt: "How much cash did GM burn in these deals?"

Jordan: "We will never know but fair to say these deals were a major contributor to putting GM into bankruptcy."

Matt: "Rather than plowing earnings back into the car divisions and making them stronger, GM kept bleeding the car divisions and making them weaker. GM spent money like a drunken sailor."

Jordan: (laughing) "Matt, now you know all sailors aren't drunks."

Matt: "You know what I mean."

Jordan: "GM's wild spending spree and Squeaky's reorganization plan also killed some very good suppliers divisions, which were big money makers for GM."

Matt: "I forgot how vertically integrated GM. Why did GM get rid of the supplier divisions?"

Jordan: "Vertical integration was part of the formula for the GM money machine. Squeaky then spun off the supplier divisions. From a pure financial perspective, it appears cheaper to buy products from outside suppliers rather than buying from GM divisions...because you can shop around for the best price."

Matt: "But, if there is anything I've learned from this study, the purchase price is only part of the equation. There are many more things to consider."

Jordan: "Bean counters don't look at the whole picture, only tangible cost. A lesson for POTUS is executives should be focused on understanding how different part of the business affect the whole. Bean counters...and all executives...should be taught to take a holistic approach to cost and many other issues."

Matt: "You're starting to sound like some granola junkie. Holistic approach?"

Jordan: "Look at the companies that are most successful long term. The companies are more balanced...much like GM was for many years."

Matt: "Other thoughts?"

Jordan: "I know I'm repeating myself, but until we started this assignment for POTUS, I did not appreciate the extent to which Roger Smith, then Jack Smith and finally Rick Wagoner, screwed up the GM money machine."

Matt: "Think it was intentional?"



Jordan: "That's like saying there was a conspiracy to kill the electric car."

Matt: "Then what happened?"

Jordan: "The singular focus on financial – earnings per share -- rather than growing the business was the problem. Squeaky's 'my way or the highway' decree that earnings were more important than market share changed the culture and turned out to be the death knell of GM."

Matt: "What about post bankruptcy?"

Jordan: "The group that replaced GM management didn't get it either. The CEO was from a telephone company. C'mon."

Matt: "You know, Jordan, this might be a good place to wrap up lessons learned from GM. How do we apply those lessons to help POTUS formulate a policy to rebuild US manufacturing?"

Jordan: "As simple as this sounds, and for fear of repeating myself yet again..."

Matt: "Say it again."

Jordan: "Companies need to be balanced. Take a holistic approach. And companies need to be fair. Fair



to customers, fair to suppliers, fair to employees. And by employees I don't mean just executives, or even salaried workers. Fair to everyone, including the lowest paid workers. And by being fair, the company will be consistently profitable over the long term."

Matt: "That seems so simple."



Jordan: "The company must have incredible discipline to continue to be fair to all parties, and not get hung up in short-term earnings. It is very difficult to create and maintain that discipline. GM maintained it for many years."

Matt: "And during those years made tons of money, even in the Depression. Then GM lost its balance, as it were, and slid into bankruptcy."

Jordan: "A simple and powerful lesson."

Matt: "Jordan, thanks for the insight. This has been a great education for me. Are you available if POTUS wants some additional information?"

Jordan: "Of course. Matt, I really enjoyed working with you. And thanks for your time and patience."

## #56 CATCHING UP WITH JC. CAN'T SHAKE GM.

*Scene: Coffee shop with Jordan and JC. Catching up on recent events.*



JC: "Jordan, old boy, where have you been? Besides, you look awful."

Jordan: "Thanks for the compliment JC. Nice to see you, too."

JC: "Seriously, where have you been? You OK?"

Jordan: "I'm fine, I think. And I appreciate your concern."

JC: "So, where have you been?"

Jordan: "Holed up in my office on an assignment for POTUS."

JC: "Some project where you'll be put on double-secret probation if you tell me?"

Jordan: "Nothing secret...at least no one told me not to discuss it."

JC: "So what is it?"

Jordan: "POTUS is developing a plan to rebuild US manufacturing. He asked me to use my knowledge of and experience at GM for any lessons that might be helpful."

JC: "You've been away from there for a while. Besides GM seems to be in a lot of trouble."

Jordan: "That's one of the lessons. How did GM go from the world's leading company to basically a so-so player...at least in the car business?"

JC: "You have to write all the stuff yourself?"

Jordan: "No, fortunately. POTUS' office assigned a reporter."

JC: "I came by your office the other day and saw Matt..."

Jordan: "Pardon me for interrupting but his involvement you have to keep quiet. We don't need a bunch of people claiming liberal bias before the report is written. Forget you saw him. But, he has been a great help."

JC: "But why the haggard look?"

Jordan: "Talking about GM...or at least what I know about GM...during the early years was great fun. And frankly, truly inspiring. They did a great job."

JC: "A lot of those years Sloan was in charge, right?"

Jordan: "How did you know that?"

JC: "Remember, I'm an American history major. Plus I read a lot. Plus I've known you since you could barely see over a split-rail fence."



Jordan: "A very long time."

JC: "When you said you were going to the Sloan School at MIT...I knew about MIT but not Sloan...I did some research on who Sloan was."

Jordan: "So you read up on Alfred P. Sloan."

JC: "And his middle name was Pritchard. So there."

Jordan: "You are good. Anyway, telling the story about GM quit being fun when we started to discuss the 1980's under Roger Smith."

JC: "You were at Buick, then, right? From all you've said that was a great assignment."

Jordan: "Buick was loads of fun. And I'd like to think I helped."

JC: "So what's the conflict, already?"

Jordan: "Until Matt starting probing, I'd never put the Smith regime in proper context. I'd thought about a lot of what went on but never put all the pieces together or really assessed the impact."

JC: "And what was your conclusion?"

Jordan: "Smith...aka Squeaky in certain circles...put GM on the path to bankruptcy."

JC: "You think intentionally?"

Jordan: "No but he intentionally caused harm to parts of GM."

JC: "Such as?"

Jordan: "Such as the UAW and such as Flint, MI."

JC: "Why?"

Jordan: "I don't know exactly why. But I think Squeaky believed the UAW members made too much money."

JC: "And therefore were effectively stealing money from GM...or at least taking it unfairly."

Jordan: "More like taking part of Squeaky's bonus."

JC: "But why Flint?"

Jordan: "Because GM was forced to recognize the UAW after a sit-down strike at **Fisher Body #1 in Flint.**"

JC: "When was that strike? Late 1930's?"

Jordan: "1936-37. And I don't think Smith ever forgave the workers in Flint for the strike...or the people who supported the workers."

JC: "I don't want to dredge up old stories but I can tell by your voice talking about the decline of GM has been painful."

Jordan: "The pain only gets worse the more we talk about GM post 1980. Let's get a refill."

## #57 BEING FAIR IS GOOD FOR GM AND GOOD FOR THE COUNTRY

*Scene: Coffee shop with Jordan and JC. Catching up on recent events. They've finished their first cup.*



JC: "Thanks for buying my coffee refill. You're so generous."

Jordan: "You're welcome. Next time, you buy...dinner."

JC: "So when you look back at what went wrong at GM, is there one overriding issue that comes to mind?"

Jordan: "Yes. And I am not sure I actually said this to Matt. GM's downfall started when it stopped being fair."

JC: "Stopped being fair? Jordan, that seems odd and naïve, especially from you. You want companies to be fair? What planet are you living on?"



Jordan: "Think about it? Do you deal with people or companies you don't think are fair? They must win and you must lose."

JC: "Occasionally, we all end up with the short end of the stick. But I try to avoid situations where I am always the loser and getting screwed."

Jordan: "That's what I mean. Everyone makes mistakes and not every situation is fair. But people

try to stay away from situations where 'heads I win, tails you lose.'"

JC: "Now give me an example. And not just the car stuff."

Jordan: "OK. Do you know what COLA means?"

JC: "Cost of living allowance."

Jordan: "Hey, you're good."

JC: "Jordan, most everyone knows what COLA means. So tell me the story, already."

Jordan: "I don't remember the exact year...sometime in the early 1980's...and the economy was in a mild recession. Car sales were down and GM was under pressure to maintain profits. More self-induced pressure but that was the claim."

JC: "And who was captain of the GM ship at the time?"

Jordan: "Roger Smith."

JC: "Oh, Mister 'focus-on-cost' himself. This story should be good."

Jordan: "So Squeaky decides all salaried people should sacrifice some compensation in order to help earnings."

JC: "Everyone was to sacrifice? Across the board?"

Jordan: "All salaried employees. And Smith decides the most equitable way is to stop paying COLA. That way no one has to take a salary cut."



JC: "How is...or was COLA calculated at GM. I know for Social Security, COLA is a percentage of benefits. Everyone gets an increase, say 2-3%. The higher the benefit payment, the higher the amount of the COLA increase. A benefit of \$1,000 per month would receive \$30 more per month. A base benefit of \$2,000 per month would get \$60 more per month."

Jordan: "COLA was different at GM. COLA was not tied to salary amount. COLA was a specific dollar amount. And COLA was paid each quarter, not every month. The amount was linked to the UAW contract."

JC: "You in the UAW? I mean really. 'Look for the union label...' That's really funny."

Jordan: "C'mon. By linking COLA for salaried employees to the UAW, GM thought it would deter people from joining the union."

JC: "So Squeaky...I mean Mr. Smith...decides fair means every salaried person should give up COLA. But COLA for salaried is the same dollar amount, whether the person is chairman of the board or a mail clerk. That seems like a new definition of fair."

Jordan: "That was Smith's definition of fair. For Smith, COLA was barely pocket change. For lower-paid staff, eliminating COLA meant a noticeable pay cut."

JC: "What really troubles me about the story is Smith not understanding what's fair. If everyone had to

give up say 5.0% of salary, then people would not like it...but they might understand...and think its fair. But pocket change to one person and 5.0% to another is not fair. For the lower-paid employees, that might have been grocery money."

Jordan: "I hear you. Before announcing the plan, I wonder if Smith discussed it with anyone or if he did, if anyone tried to talk him into making it more fair?"

JC: "This story is maddening...and probably all too typical. How do we make sure CEO's and Boards of Directors of companies become more fair? I'm convinced if POTUS wants to rebuild US manufacturing, there needs to be strong emphasis on companies being as fair as possible."

Jordan: "Telling stories like the one about taking away COLA is a good start. Everyone...well, most everyone...will understand that was not fair."



JC: "Here's another fairness issue. Fast forward to GM post bankruptcy, which is a whole lot more recent. GM starts recalling millions of cars. What was it for... something to do with starting the car?"

Jordan: "The ignition switch."

JC: "That's it. What really happened?"

Jordan: "Short answer is GM was still run by bean counters. GM saved about \$1 per car by not fixing a design flaw in the switch. Then GM spent hundreds of millions, maybe a billion dollars or more, to recall the cars and fix the problem."

JC: "What about all those people who died?"

Jordan: "When the switch failed, the power to the rest of the car, including the airbags was cut off."



JC: "How many people died?"

Jordan: "We'll never know exactly. Initial reports indicated 13 or so...but likely more."

JC: "That's awful. Why didn't they fix the problem?"

Jordan: "I'm not trying to defend any actions by GM. But most people have no idea how complicated an automobile is...and how driver's abuse it."

JC: "Stuff happens. I understand that. But what's not fair is the way GM knew about the problem for 10 years and never fixed it."

Jordan: "I agree. But the report said the problem was confined to a group, not all of GM."

JC: "Not fixing a problem is a reflection of corporate culture. And culture starts with the CEO. Worse yet, from what I read, the lawyers were some of the main culprits. Jordan, when you were at GM, was there

a culture of burying problems...I don't mean for 10 years...or even five years. And did a bunch of bean counters and even worse a bunch of lawyers effectively run the company?"

Jordan: "The problem would have been fixed...and quickly."

JC: "That's my point. GM ran amok. Why? And, you know why."

Jordan: "GM management go so focused on trying to generate earnings by controlling cost, it lost sight of why it was in business."



JC: "And, oh great GM historian, when did that culture begin to change?"

Jordan: "You know when. With the reign of Roger Smith."

JC: "You know something, Jordan, as much as I agree with your assessment of GM changing starting under Roger Smith, GM was not alone. The United States when thru a similar transition starting at the same time."

Jordan: "You mean under Ronald Reagan?"

JC: "Yes. Just take a look at some basic economic statistics, especially median household income. We talked about this before. Upper incomes started to gain and lower incomes remained flat. The disparity got worse, and worse and worse. Then the disparity became so great...and so unfair...that people revolted. The unfairness resulted in US having its 5th revolution."

Jordan: "Point well taken. And lesson for the project for POTUS."

JC: "And the lesson is 'Why being fair is good for General Motors and good for the country.' I know, a variation on what Engine Charlie Wilson said but still true."



## #136 CORPORATE BEHAVIOR: GM AND IGNITIONGATE (JUNE 2015)

*Scene: Continuation of conversation between Jordan and JC, a long-time friend. JC and Jordan concluded that the standard measure for future government policies should be 'treat thy neighbor as thyself.' They also agreed to assess whether the standard is appropriate for corporate policy. Disney was the first case. GM the second case."*

JC: "Ok, Jordan, now that I have beaten up Disney, I have a question for you."

Jordan: "Shoot."



JC: "What about the behavior of your old employer. I mean, General Motors really screwed up with that ignition switch failure. Did they treat thy neighbor as thyself? What do you think happened?"

Jordan: "Your right, the General made some major mistakes, starting with a poorly designed ignition switch. How that design passed any kind of durability testing is beyond me."

JC: "But what about those indictments? US Justice Department found criminal wrongdoing...and some charges about wire fraud, which I did not understand." (*Articles 15 05 22 NYT Justice Dept Finds Criminal Wrongdoing at GM, 15 06 10 US Weighs Charges Against GM*)



Jordan: "The wire fraud charges...charges, not convictions...in my view were a circuitous way to bring criminal charges. And more problematic."

JC: "OK, what about the cover-up of bad engineering?"

Jordan: "Look, I have no inside knowledge of any of what happened – call it Ignitiongate. I agree GM is at fault for the ignition switch that failed, but..."

JC: "...but what else is there to the story? GM releases a poorly designed switch and there's a bunch of accidents and some people die. What else is there? Doesn't GM deserve the one-fingered salute for bad behavior?"

Jordan: "Probably...but I think there is more to the story. If you can sit still for a few minutes, I want to walk you through some other issues that seem to have gotten little attention."



JC: "I'll sit here as long as you don't sound like some PR blowhard. By the way, what makes you an expert?"

Jordan: "You know I'm not an expert. But I did spend a lot of time in product development and spend a lot of time dealing with dealers and customer issues. Aside from that background, there seems to be a lot of common sense that has been overlooked."

JC: "OK, big boy, start your spiel."

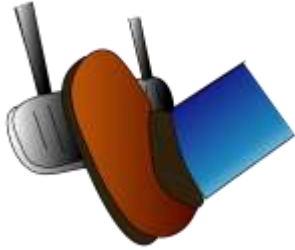
Jordan: "You might not like my comments but here goes. Yes, GM is at fault. There is little question that the ignition switch failed. And the failure rendered inoperative the power assist for steering and braking and the airbags. But, my question, 'Was GM entirely at fault?'"

JC: "Isn't that a rather harsh statement? The driver's didn't doing anything wrong? So all the fault has to lie with GM."

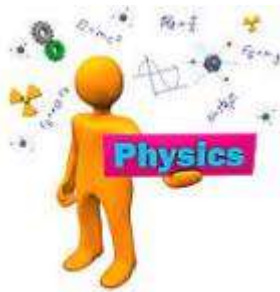


Jordan: "I said GM was at fault for the poor design. But I also think part of the fault lies elsewhere. And here's why I say that. First some facts about the vehicle. #1, power steering is not necessary to steer the car effectively, especially at higher speeds. If the power assist for steering fails, you can still drive the car safely. Takes a bit more effort but not much. Power steering is mostly for parking."

JC: "Haven't thought about that for a long time. But I remember my dad had cars without any power steering. My mom drove the cars...and she was no weightlifter. She didn't like to parallel park those cars but how many people do. Next item."



Jordan: "#2, same type issue. Power-assisted brakes are not necessary to slow or stop the car. Without power assist, the stopping distance likely will increase but you can still stop the car. Granted it takes more pressure on the pedal but brakes still function. Besides stopping distance is not just brakes alone. Other key factors are (a) vehicle speed; (b) driver reaction time; (c) road conditions; (d) amount of tread on the tires. Remember your physics class? Braking is a physics problem with several variables...and driver behavior being one of the most important."



JC: "Physics class? Yes, braking really overcomes the kinetic energy of the car. And the formula for kinetic energy is...ok brain, dig deep...the formula, kinetic energy equals mass, or one-half mass times velocity?"

Jordan: "You're close. I'm impressed. Kinetic energy equals  $\frac{1}{2}$  mass times velocity squared."

JC: "I forgot about the squared part. When you double miles per hour of the car, kinetic energy increases four times. So speed is a big factor."

Jordan: "Along with driver reaction time. In one second, a car going 60 mph travels 88 feet. Two seconds, 176 feet. That's more than one-half a football field in just two seconds."



JC: "Yikes. Any kind of hesitation deciding what to do makes a huge difference."

Jordan: "Which leads to my third point, safety standards. Cars and light trucks are subject to a plethora of safety standards."

JC: "What's that mean?"

Jordan: "It means that the front occupants must be able to withstand a frontal crash up to about 30 mph without serious injury."

JC: "Is what airbags are for?"

Jordan: "Airbags are considered supplemental restraints. You still have to wear your seatbelt."



JC: "What if you don't wear a seatbelt? The airbag should give you enough protection, right?"

Jordan: "No, you need the seatbelt. You can skip the airbag but you can't skip wearing a seatbelt."

JC: "I always wear my seatbelt but I thought the airbag was the key."

Jordan: "Despite laws about using seatbelts, too many people think that way. A seatbelt is more important than an airbag. Is that clear?"



JC: "I got it, already. A seatbelt provides lots of protection even if the airbag doesn't work."

Jordan: "Yes."

JC: "Now, where does leave us? We still need to talk about who's to blame?"

Jordan: "We already know GM is at fault. But let's list some other candidates of where the fault might lie."

JC: "OK...but after we take a break. Too much coffee."

## #137 CORPORATE BEHAVIOR: GM IGNITIONGATE CON'T

JC: "Whew. I'm back and feel much better."

Jordan: "I needed a break, too."



JC: "OK, back to the list. Who's on the list for being at fault in Ignitiongate?"

Jordan: "We agreed on GM. #2 could be the driver."

JC: "You implied that before the break. That seems awfully cruel."

Jordan: "But what if the driver is under the influence of something – alcohol or drugs? Remember during two seconds...one thousand one, one thousand two...a car going 60 miles per hour travels 176 feet."

JC: "More than half the length of a football field. I remember."



Jordan: "So any kind of delay in reacting can have major consequences. But I think there's a third element that I've not heard anyone talk about."

JC: "And that is?"

Jordan: "Driver education."

JC: "You mean good old driver's ed classes?"

Jordan: "Exactly. How many students, especially those under say age 30-35, do you think were taught how to drive the car without power steering or power brakes? How many students even know that you don't need power steering or power brakes to operate the car safely?"

JC: "Probably not many. And from what I read many accidents after the ignition switch failed involved younger drivers."



Jordan: "The cars with the faulty switch were smaller, lower-priced. Drivers of these cars are generally younger."

JC: "So you're saying GM's at fault but others might be at fault as well, right?"

Jordan: "If we assume that fault is split evenly among GM, drivers and driver's ed, then merely pointing the finger at GM...or in your case giving the finger to GM...does not address a broader issue – personal responsibility."

JC: "How do you address the broader problem?"



Jordan: "Fining GM a huge amount of money might make some people feel good and it might change some behavior inside the company, but it doesn't address the problem of driver responsibility and certainly not address the scope and quality of driver's education classes."

JC: "Why isn't GM fighting some of these cases in court?"

Jordan: "Good question. They likely have data that indicates some very irresponsible driving."



JC: "How would they get that kind of data?"

Jordan: "You know your car has a black box, much like an airplane's black box, right?"

JC: "Say what? There's a black box in my car that tracks my driving?"

Jordan: "Yes, and black boxes have been around since the early 1990's. And there were two reason the boxes were installed: #1, safety. The data were used to help analyze conditions prior to an accident. #2, and less publicized, the data provided some defense against spurious law suits." (*Article, 13 07 21 NYT re Black-Boxes in Cars*)

JC: "With all these data, you'd think GM would fight some of these cases. Why aren't they?"



Jordan: "My guess is GM doesn't want to tarnish their image. Think about it. GM clearly was to blame for the faulty ignition switch. How would it look if they started to pin part of the blame on a driver, even if it's more than justified?"

JC: "I see what you mean. It's a no-win situation. Go to court and fight and more media coverage about the faulty switch. Then blame some or all of the accident on the driver and you look like a real a-hole."



Jordan: "And gun-slinging lawyers know the image dilemma for high-profile companies like GM. So what do they do?"

JC: "File a suit, even if the case is flimsy, because they know the company...GM in this case...likely will settle out of court to avoid tarnishing their image."

Jordan: "For GM, the case is a no-win. For lawyers and the plaintiffs they corral, it's no lose. The case is on a contingency basis so plaintiffs have no cost."

JC: "Don't doctors suffer from the same problem...spurious lawsuits?"

Jordan: "Yes and just for the record, I agree that some, maybe even most of the plaintiffs deserve an award. There are people injured through no fault of their own. But, there are many cases..."



JC: "...like the one against Starbucks. The cop gets free coffee...free mind you...then doesn't check if the lid is tight. Spills coffee in his crotch and claims some kind of injury. Except when the facts came out, the injury or condition, or whatever he claimed it was, existed prior to spilling the coffee. Talk about ungrateful."

Jordan: "Fortunately Starbucks won the case. But in cases with multiple claimants, like GM and the BP spill in the Gulf of Mexico, there are a number of people who file lawsuits who have

absolutely no right to any damages. In fact I know one of the BP plaintiffs who suffered not a single dollar loss yet claimed damages of something like \$400,000.”

JC: "Did he get paid?"

Jordan: "You know, I never asked. I was so infuriated with the idea of filing a claim that I never followed up.”

JC: "Alright, let's lay out a policy for the GM case based on the standard, 'treat thy neighbor as thyself'. What's the policy?"

Jordan: "First, GM is at fault. Everyone agrees, even GM. Some fine should be levied. There might have been criminal activity with intentionally covering up the flaw and/or not reporting to NHTSA.”



JC: "What's NHTSA?"

Jordan: "National Highway Traffic Safety Administration. Any safety related defect you have to report. Apparently GM did not. #2, GM should be liable for some of the injuries and deaths that occurred. However, GM should not be responsible for injury or death where there was excessive speed and/or occupants unbelted. GM cannot be held liable for irresponsible behavior by a driver or passenger.”

JC: "What's the third?"

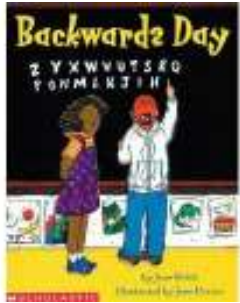
Jordan: "Driver education classes, whether private or in public schools, need to include a section of learning to operate the vehicle without power steering and without power



brakes. Make it part of the driver's test. You don't want to take your first lesson in an emergency.”

JC: "You think any of these changes will occur any time soon?"

Jordan: "No, unless the public starts to demand them. As an example of how disconnected some legislators are with reality, Republicans in the North Carolina senate wanted to eliminate all driver training in schools. Turn age 15, take a test and get a permit with no training whatsoever."



JC: "What a back asswards way of thinking. What happened?"

Jordan: "The public forced them to drop the idea. The legislator's kind of thinking and lots of other issues helped precipitate the Revenge Revolution. The public is still hungry for change. This is an ideal time for these proposals."

JC: "One last thought. Does GM deserve the one-fingered salute?"

Jordan: "Not now. Their screw-up with Ignitiongate was some years ago. Management seems committed to improving. Let's give them a bit more time before you give the salute."



JC: "I'll wait. What's next on the agenda?"

Jordan: "Call centers based in foreign countries...after we have something to eat."

*More about the origination of the blog and the author, [www.usrevolution5.com](http://www.usrevolution5.com).*